

AUDITED FINANCIAL STATEMENTS

FOR EACH

PARENT CROWN CORPORATION

FOR FISCAL YEARS ENDING

BEFORE JULY 31, 2003



LIST OF CROWN CORPORATIONS

Atlantic Pilotage Authority
Atomic Energy of Canada Limited

Bank of Canada
Blue Water Bridge Authority
Business Development Bank of Canada

Canada Council for the Arts
Canada Deposit Insurance Corporation
Canada Development Investment Corporation
Canada Hibernia Holding Corporation
Canada Lands Company Limited
Canada Mortgage and Housing Corporation
Canada Pension Plan Investment Board
Canada Post Corporation

Canadian Air Transport Security Authority
Canadian Broadcasting Corporation
Canadian Commercial Corporation
Canadian Dairy Commission
Canadian Museum of Civilization
Canadian Museum of Nature
Canadian Race Relations Foundation
Canadian Tourism Commission

Cape Breton Development Corporation
Cape Breton Growth Fund Corporation

Defence Construction (1951) Limited

Enterprise Cape Breton Corporation
Export Development Canada

Farm Credit Canada
Federal Bridge Corporation Limited, The
Freshwater Fish Marketing Corporation

Great Lakes Pilotage Authority

International Development Research Centre

Laurentian Pilotage Authority

Marine Atlantic Inc.

LIST OF CROWN CORPORATIONS (*continued*)

National Arts Centre Corporation
National Capital Commission
National Gallery of Canada
National Museum of Science and Technology

Old Port of Montreal Corporation Inc.

Pacific Pilotage Authority

Public Sector Pension Investment Board
 Canadian Forces Pension Plan Account
 Public Service Pension Plan Account
 Royal Canadian Mounted Police Pension Plan Account

Queens Quay West Land Corporation

Ridley Terminals Inc.
Royal Canadian Mint

Standards Council of Canada

Telefilm Canada

VIA Rail Canada Inc.

**Atlantic
Pilotage
Authority**



Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by the Authority's management in accordance with Canadian generally accepted accounting principles consistently applied, using management's best estimates and judgements, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management is also responsible for developing and maintaining a system of internal control which is designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide timely, accurate financial reports.

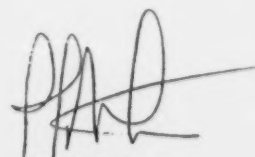
The Authority's management is responsible for conducting its affairs in compliance with the *Pilotage Act* and regulations, the *Financial Administration Act* and regulations, and the by-laws of the Authority.

The Authority is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Authority exercises its responsibilities through its Audit Committee. The Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with Canadian generally accepted auditing standards, and expresses her opinion on the financial statements. She has full and free access to the Audit Committee of the Authority, and her report follows.



R.A. McGuinness
Chief Executive Officer



P. MacArthur
Chief Financial Officer

Halifax, Nova Scotia
February 12, 2003



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Auditor's Report

To the Minister of Transport

I have audited the balance sheet of Atlantic Pilotage Authority as at December 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conduct my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, and the by-laws of the Authority.

John O'Brien, CA

Principal

for the Auditor General of Canada

Halifax, Nova Scotia

February 12, 2003

ATLANTIC PILOTAGE AUTHORITY

Balance Sheet

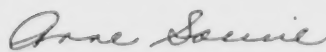
As at December 31, 2002

<i>in thousands of dollars</i>	2002	2001
Assets		
Current		
Cash and short term deposits (Note 3)	\$ 309	\$ 254
Accounts receivable, net (Note 3)	1,864	1,674
Prepaid expenses	47	28
	2,220	1,956
Long Term		
Investments (Note 3)	620	468
Segregated investments (Note 3)	887	887
Capital assets, net (Note 4)	2,789	2,730
	\$ 6,516	\$ 6,041
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 3)	\$ 1,189	\$ 971
Accrued employee severance benefits	96	88
	1,285	1,059
Long Term		
Accrued employee severance benefits	608	611
	1,893	1,670
Equity of Canada		
Contributed capital	2,305	2,305
Retained earnings	2,318	2,066
	4,623	4,371
	\$ 6,516	\$ 6,041

Commitments and contingencies (Note 8)

See accompanying notes to financial statements

Approved by the Authority:



Chair



Member

Statement of Operations and Retained Earnings

For the year ended December 31, 2002

<i>in thousands of dollars</i>		2002	2001
Revenues			
Pilotage charges	\$	13,836	\$ 11,998
Other Income (Note 5)		405	340
		14,241	12,338
Expenses			
Pilots' fees, salaries and benefits		7,218	6,432
Pilot boats, operating costs		3,401	3,164
Staff salaries and benefits		1,075	1,003
Transportation and travel		709	645
Professional and special services		398	402
Amortization		354	327
Training		249	111
Utilities, materials and supplies		244	220
Rentals		171	108
Communications		170	119
		13,989	12,531
Net income (loss) for the year		252	(193)
Retained earnings, beginning of the year		2,066	2,259
Retained earnings, end of the year	\$	2,318	\$ 2,066

See accompanying notes to financial statements

Statement of Cash Flows

For the year ended December 31, 2002

<i>in thousands of dollars</i>	2002	2001
Operating Activities		
Cash receipts from customers	\$ 13,686	\$ 12,063
Cash paid to employees and suppliers	(13,302)	(12,190)
Other income received	346	228
Employee severance payments	(110)	(131)
Cash flows from (used in) operating activities	620	(30)
Investing Activities		
Purchase of investments and segregated investments	(527)	(517)
Redemption of investments and segregated investments	375	493
Additions to capital assets	(413)	(411)
Cash flows (used in) investing activities	(565)	(435)
Increase (decrease) in cash and short term deposits	55	(465)
Cash and short term deposits, beginning of year	254	719
Cash and short term deposits, end of year	\$ 309	\$ 254

See accompanying notes to financial statements

Notes to Financial Statements

December 31, 2002

(in thousands of dollars)

1. Objectives and Activities

The Atlantic Pilotage Authority (the "Authority") was established in 1972 pursuant to the *Pilotage Act*. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The *Act* provides that pilotage tariffs shall be fair, reasonable, and sufficient, together with any revenue from other sources, to permit the Authority to operate on a self-sustaining financial basis. Under the *Pilotage Act*, no payment to the Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

2. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles:

(a) Cash and short term deposits

Cash and short term deposits consist of cash on hand and investments in money market instruments. Cash and short term deposits are recorded at cost.

(b) Investments and segregated investments

Investments are recorded at cost. Write down of investments to market value is recorded for other than a temporary decline in their underlying value.

(c) Employee future benefits

Employees are entitled to specified benefits on termination as provided for under conditions of employment, through a severance benefit plan. The Authority recognizes the cost of the future severance benefits over the periods in which the employees render services to the entity and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. Changes to these estimates are charged or credited to the Statement of Operations in the period they are reassessed.

(d) Contributed capital

Contributed capital consists of the estimated historical cost of capital assets obtained from Canada when the Authority was established and the net capital assets financed from parliamentary appropriations.

(e) Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Pilot boats	10 to 25 years
Furniture and equipment	5 to 10 years

(f) Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period (see note 6). Contributions with respect to past service benefits are expensed when paid. The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(g) Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

3. Financial Instruments

In accordance with the *Pilotage Act*, the Authority is only permitted to invest in Government of Canada Treasury Bills and government guaranteed bonds. Investments are at fixed rates of interest until maturity. The Authority's investments are not considered to have any significant exposure to credit risk.

	2002		2001	
	Carrying Value	Yield (%)	Carrying Value	Yield (%)
Cash (bank indebtedness)	\$ 41		\$ (89)	
Maturing within 3 months:				
Government of Canada Coupons	—		65	4.93
Government of Canada Treasury Bills	249	1.25	246	3.29
Provincial Coupons	19	5.82	32	5.03-5.05
Total cash and short term deposits	\$ 309		\$ 254	
Maturing within 3 years:				
Government of Canada Bonds	\$ 181	4.49-4.96	\$ —	
Provincial Bonds	922	4.21-5.83	838	4.68-5.83
	1,103		838	
Maturing beyond 3 years:				
Government of Canada Bonds	180	4.25-4.71	58	4.25-4.79
Provincial Bond	224	4.72-5.02	459	4.21-5.17
	404		517	
Total investments and segregated investments	\$ 1,507		\$ 1,355	

Segregated investments represent one fund established for capital asset replacement and the funding of employee severance benefits. The level in the fund is based upon the cash provided by operating activities in the previous year. There were no additions to or withdrawals from segregated investments in 2002.

The carrying value of investments approximates their fair value.

Accounts receivable and accounts payable are incurred in the normal course of business. Both are due on demand. The carrying value of these financial instruments approximates fair values because of their short maturity. There are no concentrations of accounts receivable with any one customer.

4. Capital Assets

	2002			2001		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 1	\$ —	\$ 1	\$ 1	\$ —	\$ 1
Pilot boats	4,853	2,334	2,519	4,501	2,137	2,364
Furniture & equipment	1,194	925	269	1,133	768	365
	\$ 6,048	\$ 3,259	\$ 2,789	\$ 5,635	\$ 2,905	\$ 2,730

5. Other Income

These financial statements include amounts recovered with respect to a fraud committed against the Authority. The Authority has now made full recovery of these funds.

6. Pension Plan

The Authority is required to contribute to the Public Service Superannuation Plan on a ratio of 2.14 to 1 of employee contributions to a defined salary threshold. On the portion of salaries above the defined threshold, the Authority is required to contribute on a ratio of 15 to 1 of employee contributions.

Contributions to the Public Service Superannuation Plan consisted of:

	2002	2001
Contributions by the Authority	\$ 777	\$ 575
Contributions by employees	\$ 306	\$ 269

7. Related Party Transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

8. Commitments and Contingencies

(a) The Authority has entered into contracts for pilot boat services, office rentals, and wharfage rentals requiring the following minimum annual payments:

2003	\$ 828
2004	143
2005	105
2006	91
2007	14
	\$ 1,181

(b) In connection with its operations, the Authority is the defendant or otherwise involved in pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Authority. No provision has been recorded in the financial statements in this regard.

**Atomic
Energy
of Canada
Limited**



MANAGEMENT RESPONSIBILITY

The consolidated financial statements, all other information presented in this Annual Report and the financial reporting process are the responsibility of the management. These statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates based on the experience and judgment of management. Where alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

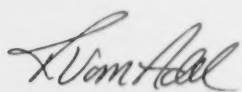
The Corporation and its subsidiaries maintain books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and accurate financial information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with Part X of the *Financial Administration Act* (FAA) and its regulations, as well as the *Canada Business Corporations Act*, the articles, and the by-laws and policies of the Corporation and its subsidiaries. The Corporation has met all reporting requirements established by the *Financial Administration Act*, including submission of a corporate plan, an operating budget, a capital budget and this Annual Report.

The Corporation's internal auditor has the responsibility of assessing the management systems and practices of the Corporation and its subsidiaries. AECL's independent auditors conduct an audit of the consolidated financial statements of the Corporation and report on their audit to the Minister of Natural Resources.

The Board of Directors, acting through an Audit and Finance Committee, composed of directors who are not employees of the Corporation or its subsidiaries, is responsible for ensuring that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit and Finance Committee meets with management, the internal auditor and independent auditors on a regular basis to discuss auditing matters, internal controls and financial reporting issues. The independent auditors and internal auditor have unrestricted access to the Audit and Finance Committee with or without management's presence. The Audit and Finance Committee reviews the consolidated financial statements and the Management's Discussion and Analysis (MD&A) report with both management and the independent auditors before such documents are approved by the Board of Directors and submitted to the Minister of Natural Resources.



***The Corporation
has met all
reporting
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Administration
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Robert Van Adel

President and Chief Executive Officer



Michael Robins

Chief Financial Officer

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Robert Van Adel

President and Chief Executive Officer



Michael Robins

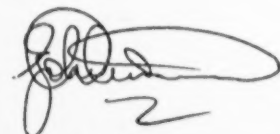
Chief Financial Officer

AUDITORS' REPORT

To the Minister of Natural Resources

We have audited the consolidated balance sheet of Atomic Energy of Canada Limited as at March 31, 2003 and the consolidated statements of operations, deficit, contributed capital and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

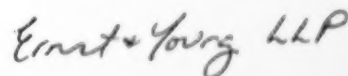


John Wiersema, CA
Assistant Auditor General
for The Auditor General of Canada

Ottawa, Canada
May 9, 2003

In our opinion, these consolidated financial statements present fairly, in all material respects the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, and the articles and by-laws of the Corporation and its wholly-owned subsidiaries.



Ernst & Young LLP
Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

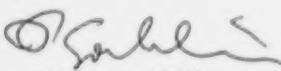
CONSOLIDATED BALANCE SHEET

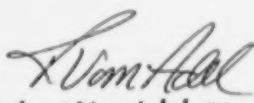
As at March 31

(thousands of dollars)	2003	2002
Assets		
Current		
Cash and cash equivalents (Note 3)	\$ 102,292	\$ 131,716
Short-term investments (Note 3)	57,100	24,856
Accounts receivable (Note 3)	79,555	67,274
Current portion of long-term receivables (Note 4)	8,558	-
Due from Receiver General	2,000	9,368
Inventory	10,536	7,972
	260,041	241,186
Long-term receivables (Note 4)	147,751	2,617
Trust fund (Note 5)	10,119	-
Heavy water inventory (Note 6)	426,620	563,259
Property, plant and equipment (Note 7)	128,261	116,941
	\$ 972,792	\$ 924,003
Liabilities		
Current		
Current portion of customer advances	\$ 101,665	\$ 67,602
Accounts payable and accrued liabilities	92,596	99,892
Current portion of commercial and other provisions	13,050	7,471
Current portion of long-term debt (Note 8)	1,007	1,029
	208,318	175,994
Decommissioning and site remediation provision (Notes 5 and 9)	401,269	386,500
Customer advances	56,657	-
Commercial and other provisions	46,293	71,658
Deferred capital funding (Note 10)	52,559	50,432
Employee future benefits (Note 11)	50,921	49,141
Long-term debt (Note 8)	4,500	5,507
	820,517	739,232
Contingent liabilities (Note 14)		
Shareholder's equity		
Capital stock		
Authorized - 75,000 common shares		
Issued - 54,000 common shares	15,000	15,000
Contributed capital (Note 12)	575,812	582,592
Deficit	(438,537)	(412,821)
	152,275	184,771
	\$ 972,792	\$ 924,003

The accompanying notes are an integral part of these consolidated financial statements

Approved by the Board:


Jean-Pierre Soublière, Director

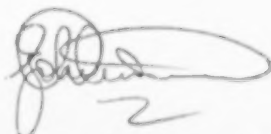

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AUDITORS' REPORT

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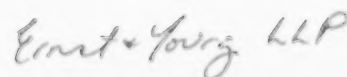


John Wiersema, CA
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May 9, 2003

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Ernst & Young LLP
Chartered Accountants

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

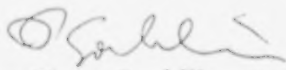
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Contingent liabilities (Note 14)		
Shareholder's equity		
Capital stock		
Authorized - 75,000 common shares		
Issued - 54,000 common shares	15,000	15,000
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Deficit	(438,537)	(412,821)
	152,275	184,771
	\$ 972,792	\$ 924,003

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Approved by the Board:


Jean-Pierre Soublière, Director


Robert Van Adel, Director

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended March 31

(thousands of dollars)	2003	2002
Commercial operations		
Revenue	\$ 571,155	\$ 495,783
Cost of sales and operating expenses	523,900	428,089
Operating profit from commercial operations	47,255	67,694
Advanced CANDU reactor		
Expenses	36,028	15,445
Total expense	(36,028)	(15,445)
Research activities		
Funding		
Parliamentary appropriations (Note 10)	106,634	136,287
Cost recovery from third parties	16,316	16,463
Amortization of deferred capital funding	4,745	5,032
	127,695	157,782
Expenses	155,785	162,998
Net research expense	(28,090)	(5,216)
Decommissioning activities		
Funding		
Parliamentary appropriations (Note 10)	31,000	17,000
Decommissioning funding (Note 12)	8,864	7,847
	39,864	24,847
Decommissioning expense (Note 9)	54,514	27,847
Net decommissioning expense	(14,650)	(3,000)
Interest and other income	5,797	7,633
Net (loss) income	\$ (25,716)	\$ 51,666

Amortization disclosure (Note 7)

CONSOLIDATED STATEMENT OF DEFICIT

For the year ended March 31

(thousands of dollars)	2003	2002
Balance at beginning of the year	\$ (412,821)	\$ (464,487)
Net (loss) income	(25,716)	51,666
Balance at end of the year	\$ (438,537)	\$ (412,821)

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CONTRIBUTED CAPITAL

For the year ended March 31

(thousands of dollars)	2003	2002
Balance at beginning of the year	\$ 582,592	\$ 535,298
Capital contribution from shareholder (Note 10)	-	47,000
Transfer (to) from deferred decommissioning funding (Note 12)	(6,780)	294
Balance at end of the year	\$ 575,812	\$ 582,592

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31

(thousands of dollars)	2003	2002
Operating activities		
Cash receipts from customers	\$ 510,500	\$ 538,368
Cash receipts from parliamentary appropriations	140,102	148,819
Cash paid to suppliers and employees	(597,462)	(601,875)
Interest received (net)	8,471	3,735
Cash from operating activities	61,611	89,047
Investing activities		
Funds used for decommissioning activities	(47,780)	(16,706)
Purchase of short-term investments	(194,255)	(24,856)
Sales and maturities of short-term investments	162,011	-
Proceeds on disposal of capital assets	51	3,754
Acquisition of capital assets	(21,871)	(23,019)
Cash used in investing activities	(101,844)	(60,827)
Financing Activities		
Cash receipts from parliamentary appropriations	11,838	52,285
Repayment of long-term debt	(1,029)	(1,027)
Cash from financing activities	10,809	51,258
Cash and cash equivalents:		
(Decrease) increase	(29,424)	79,478
Balance at beginning of the year	131,716	52,238
Balance at end of the year	\$ 102,292	\$ 131,716
Interest and bank charges paid during the year	\$ 217	\$ 460

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended March 31

(thousands of dollars)	2003	2002
Commercial operations		
Revenue	\$ 571,155	\$ 495,783
Cost of sales and operating expenses	523,900	428,089
Operating profit from commercial operations	47,255	67,694
Advanced CANDU reactor		
Expenses	36,028	15,445
Total expense	(36,028)	(15,445)
Research activities		
Funding		
Parliamentary appropriations (Note 10)	106,634	136,287
Cost recovery from third parties	16,316	16,463
Amortization of deferred capital funding	4,745	5,032
	127,695	157,782
Expenses	155,785	162,998
Net research expense	(28,090)	(5,216)
Decommissioning activities		
Funding		
Parliamentary appropriations (Note 10)	31,000	17,000
Decommissioning funding (Note 12)	8,864	7,847
	39,864	24,847
Decommissioning expense (Note 9)	54,514	27,847
Net decommissioning expense	(14,650)	(3,000)
Interest and other income	5,797	7,633
Net (loss) income	\$ (25,716)	\$ 51,666

Amortization disclosure (Note 7)

CONSOLIDATED STATEMENT OF DEFICIT

For the year ended March 31

(thousands of dollars)	2003	2002
Balance at beginning of the year	\$ (412,821)	\$ (464,487)
Net (loss) income	(25,716)	51,666
Balance at end of the year	\$ (438,537)	\$ (412,821)

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CONTRIBUTED CAPITAL

For the year ended March 31

(thousands of dollars)	2003	2002
Balance at beginning of the year	\$ 582,592	\$ 535,298
Capital contribution from shareholder (Note 10)	-	47,000
Transfer (to) from deferred decommissioning funding (Note 12)	(6,780)	294
Balance at end of the year	\$ 575,812	\$ 582,592

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31

(thousands of dollars)	2003	2002
Operating activities		
Cash receipts from customers	\$ 510,500	\$ 538,368
Cash receipts from parliamentary appropriations	140,102	148,819
Cash paid to suppliers and employees	(597,462)	(601,875)
Interest received (net)	8,471	3,735
Cash from operating activities	61,611	89,047
Investing activities		
Funds used for decommissioning activities	(47,780)	(16,706)
Purchase of short-term investments	(194,255)	(24,856)
Sales and maturities of short-term investments	162,011	-
Proceeds on disposal of capital assets	51	3,754
Acquisition of capital assets	(21,871)	(23,019)
Cash used in investing activities	(101,844)	(60,827)
Financing Activities		
Cash receipts from parliamentary appropriations	11,838	52,285
Repayment of long-term debt	(1,029)	(1,027)
Cash from financing activities	10,809	51,258
Cash and cash equivalents:		
(Decrease) increase	(29,424)	79,478
Balance at beginning of the year	131,716	52,238
Balance at end of the year	\$ 102,292	\$ 131,716
Interest and bank charges paid during the year	\$ 217	\$ 460

The accompanying notes are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2003

1. The Corporation

Atomic Energy of Canada Limited (AECL) was incorporated in 1952 under the provisions of the *Canada Corporations Act* (and continued in 1977 under the provisions of the *Canada Business Corporations Act*) pursuant to the authority and powers of the Minister of Natural Resources under the *Nuclear Energy Act*.

The Corporation is a Schedule III Part I Crown Corporation under the *Financial Administration Act*

(FAA) and an agent of Her Majesty the Queen in right of Canada. The Corporation is exempt from income taxes in Canada.

These financial statements include the accounts of the Corporation's wholly-owned subsidiaries, AECL Technologies Inc., incorporated in the state of Delaware, U.S.A. in 1988, and AECL Technologies B.V., incorporated in the Netherlands in 1995.

2. Significant Accounting Policies

The Corporation's financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are:

a) Use of Estimates

The Corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The more significant areas requiring the use of estimates are in relation to heavy water inventory, costs of future decommissioning, future contract costs; commercial and other provisions, employee future benefits and depreciation of property, plant and equipment. The Corporation reviews these estimates annually and does not expect the current assumptions to vary significantly in the near term.

b) Cash, Cash Equivalents and Short-term Investments

Investments with maturities of 90 days or less from the date of purchase are presented as cash equivalents while short-term investments have original maturities greater than 90 days. Cash equivalents and short-term investments are carried at the lower of cost or market.

c) Trust Fund

Long-term investments in the Trust Fund established pursuant to the *Nuclear Fuel Waste Act* are carried at the lower of cost or market (see Note 5).

d) Foreign Currency Translation and Hedging Instruments

Transactions denominated in a foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities outstanding at the balance sheet date are adjusted to reflect the exchange rate in effect at that date. Exchange gains and losses arising from the translation of foreign currencies are included in income.

The Corporation enters into forward contracts to manage its exposure to changes in exchange rates arising from contractual terms and ongoing business operations. Gains and losses on forward contracts are recognized when the forward contracts mature.

e) Inventory

Heavy water is valued at the lower of cost or net realizable value. Supplies are valued at cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

f) Property, Plant and Equipment

Property, plant and equipment are recorded at cost which is amortized on a straight-line basis over the estimated useful life of the asset, and on a usage basis for certain machinery and equipment used in commercial projects, as follows:

Machinery and equipment	- 3 to 20 years
Buildings, reactors and land improvements	- 20 to 40 years

g) Decommissioning and Site Remediation Provision

The provision reflects the present value of the expected decommissioning and site remediation costs. The provision is increased each year to reflect the time value of money, adjusted for changes in management estimates of costs, and is reduced by the actual expenditures incurred.

h) Long-term Contracts

Revenue and costs on long-term contracts are accounted for by the percentage of completion method based on expenses incurred and applied on a conservative basis to recognize the absence of certainty on these contracts. Full provision is made for estimated losses, if any, to completion of contracts in progress.

i) Parliamentary Appropriations

Parliamentary appropriations that are not in the nature of contributed capital are recorded as funding in the year for which they are appropriated, except as follows. Appropriations restricted by legislation and related to expenses of future periods are deferred and recognized as funding in the period in which the related expenses are incurred. Appropriations used for the purchase of capital assets are deferred and amortized on the same basis as the related asset. Commencing in 1996-1997, and pursuant to the 10-year arrangement for funding decommissioning activities, the Corporation retains net proceeds from the sale or lease of certain heavy water. The net proceeds are transferred from contributed capital to deferred decommissioning funding and are then recorded as funding in the consolidated statement of operations as related expenditures are made.

j) Cost Recovery from Third Parties

The Corporation and the Canadian nuclear utilities (Ontario Power Generation, New Brunswick Power, Hydro-Québec and Bruce Power L.P.) have a common interest in the safe, efficient and economical use of power utilizing CANDU technology. Research programs aligned with these objectives are undertaken by the Corporation and cost-shared with the utilities. Funding under these arrangements is included in cost recovery from third parties and is recognized as the related expenses are incurred.

k) Pension Plan

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are limited to those made by both the employees and the Corporation on account of current service. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Plan.

l) Other Employee Future Benefits

Employee future benefits include specific severance benefits as provided for under collective agreements and conditions of employment. Other benefits include workers' compensation claims for which the Corporation reimburses Human Resources Development Canada in accordance with the *Government Employees' Compensation Act* for current payments billed by the provincial compensation boards.

The Corporation accrues the employee future benefits over the employees' service periods. The cost of benefits earned is actuarially determined using management's best estimate of expected salary escalation, retirement ages of employees and expected health care costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2003

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The Corporation accrues the employee future benefits over the employees' service periods. The cost of benefits earned is actuarially determined using management's best estimate of expected salary escalation, retirement ages of employees and expected health care costs.

3. Financial Instruments

Unless otherwise specified, the fair value of the Corporation's financial instruments approximates carrying value.

a) Cash, Cash Equivalents and Short-term Investments

Bank deposits are maintained at levels required to meet daily operating needs. Any surplus deposits are invested in the short-term money market. The investing strategy is based on a conservative risk assessment. All instruments are rated R1 Low or higher by the Dominion Bond Rating Service and A1 Global by Standard and Poor's. These investments comprise bank certificates of deposit, high-grade commercial and government agency paper, and government Treasury bills. The weighted average yield on the short-term investments held as at March 2003 is 3.1% (2002 - 2.3%).

b) Foreign Exchange Contracts

The Corporation enters into foreign exchange forwards to reduce the risk associated with the purchase and sale of goods in foreign currencies. Forward contracts in effect as at March 31, 2003 amount to \$3.9 million for the purchase of US dollars, Norwegian kroner and Euros (2002 - \$0), and \$0.7 million to sell Euros (2002-\$0). All hedge transactions are expected to settle within one year. The fair value of the total forward contracts as at March 31, 2003 is estimated at \$4.4 million.

c) Accounts Receivable

Accounts receivable represent normal trade instruments. Four customers (2002 - four), each representing greater than 10 per cent of the total accounts receivable, comprise an aggregate 64% (2002 - 63%) of total accounts receivable. No significant amounts are due in foreign currency.

4. Long-term Receivables

(thousands of dollars)	2003	2002
Contract receivables from customers in respect of the financing of products and services, maturing through 2018 at fixed repayment amounts.	\$ 156,309	\$ 2,617
Current portion	(8,558)	-
	<u>\$ 147,751</u>	<u>\$ 2,617</u>

Repayment amounts required over succeeding years are as follows (thousands of dollars):

2004	\$ 8,558
2005	9,847
2006	10,266
2007	8,927
2008	8,505
Subsequent to 2008	110,206
	<u>\$ 156,309</u>

5. Trust Fund

The *Nuclear Fuel Waste Act* required the Canadian nuclear utilities to form a waste management organization, the Nuclear Waste Management Organization (NWMO), to provide recommendations to the government on the long-term management of nuclear fuel waste and to implement the approach selected. The legislation also requires that each nuclear fuel waste owner establish a trust fund to finance implementation of the approach. Each individual trust fund is held for meeting the requirements of the Act and only NWMO may withdraw moneys from it in accordance with the provisions of the Act. AECL's initial deposit to its Trust Fund in 2002/03, as required by the Act, was \$10 million. Subsequent annual deposits of \$2 million to the Trust Fund are required until the obligation

ceases or the amount is modified by the government when certain requirements stipulated in the Act are met by NWMO.

The Trust Fund, which is invested in fixed income instruments with various maturities within three years, has been recorded as a long-term asset with a corresponding long-term liability in the balance sheet. These instruments comprise government bonds, high-grade corporate bonds, government agency paper, government Treasury bills and bank certificates of deposit. Quoted market values of the instruments are estimated at \$10.1 million as at March 31, 2003 with a weighted average yield of 4.0%. Interest earned on trust assets accrues to the Trust Fund.

6. Heavy Water Inventory

Heavy water inventory includes 1,003 megagrams provided to the Sudbury Neutrino Observatory Institute at no cost, the majority of which is scheduled for return in 2005-2006. In addition, the Corporation has contractual commitments to sell heavy water in

support of ongoing reactor projects. Heavy water inventory is recorded as a long-term asset since the lead-time required in relation to future reactor sales exceeds one year. For certain inventories, AECL plans to obtain an upgrade and detritiation facility.

7. Property, Plant and Equipment

(thousands of dollars)	2003		2002	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Commercial operations				
Land and land improvements	\$ 999	\$ 245	\$ 949	\$ 245
Buildings	18,691	12,074	16,802	11,501
Machinery and equipment	23,283	13,462	19,458	12,341
	42,973	25,781	37,209	24,087
Research				
Land and land improvements	27,548	18,636	22,955	18,163
Buildings	93,868	54,691	89,547	52,731
Reactors and equipment	221,022	189,156	217,624	186,498
	342,438	262,483	330,126	257,392
Construction in progress	31,114	-	31,085	-
	\$ 416,525	\$ 288,264	\$ 398,420	\$ 281,479
NET BOOK VALUE		\$ 128,261		\$ 116,941

Amortization of capital assets for the year ended March 31, 2003 amounted to \$10.5 million (2002 - \$10.7 million) in part offset by amortization of

deferred capital funding of \$4.7 million (2002 - \$5.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Heavy water inventory includes 1,003 megagrams provided to the Sudbury Neutrino Observatory Institute at no cost, the majority of which is scheduled for return in 2005-2006. In addition, the Corporation has contractual commitments to sell heavy water in

support of ongoing reactor projects. Heavy water inventory is recorded as a long-term asset since the lead-time required in relation to future reactor sales exceeds one year. For certain inventories, AECL plans to obtain an upgrade and detritiation facility.

7. Property, Plant and Equipment

(thousands of dollars)

	2003		2002	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
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Buildings	18,691	12,074	16,802	11,501
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	\$ 416,525	\$ 288,264	\$ 398,420	\$ 281,479
NET BOOK VALUE		\$ 128,261		\$ 116,941

Amortization of capital assets for the year ended March 31, 2003 amounted to \$10.5 million (2002 - \$10.7 million) in part offset by amortization of

deferred capital funding of \$4.7 million (2002 - \$5.0 million).

8. Long-term Debt

(thousands of dollars)

2003

2002

Loans from Government of Canada

To finance leased heavy water and other assets,
maturing through 2008 at interest rates varying
from 2.84% to 8.71%

\$ 5,507

\$ 6,536

Current portion

(1,007)

(1,029)

\$ 4,500

\$ 5,507

Repayment of loan principal amounts required over succeeding years are as follows
(thousands of dollars):

2004

\$ 1,007

2005

1,000

2006

1,000

2007

1,000

2008

1,000

Subsequent to 2008

500

\$ 5,507

9. Decommissioning and Site Remediation Provision

When prototype reactors, heavy water plants, nuclear research, development and other facilities have no further commercial or research value to the Corporation, they are retired and subsequently decommissioned in accordance with Canadian Nuclear Safety Commission regulations. Due to the variety of facilities, the decommissioning process may differ in each case. In some situations decommissioning activities are carried out in stages with intervals of several decades between them to allow radioactivity to decay before moving on to the next stage. Activities include dismantling, decontamination, residual waste storage and disposal.

The estimated future decommissioning and site remediation costs require that judgments be made about the regulatory environment, health and safety considerations, the desired end-state, technology to be employed and, in some cases, research and development for these activities that extend well into the future. Significant assumptions underlying many operational and technical factors are also used in the calculation of the accrued liability and are subject to periodic review. Changes to these assumptions, as well as changes to the timing of the programs or the technology employed, or changes in the standards

and regulations governing the decommissioning of nuclear facilities, could result in material changes to the value of the accrued liabilities. With programs of this duration and the evolving technology, there is a degree of risk surrounding the measurement of the costs for these programs, which may change over time. The Corporation has prepared a broad plan of activities to be carried out over the next 100 years. The plan follows a hierarchy of decommissioning activities to achieve: a controlled and controllable state for all redundant nuclear facilities that removes short-term risks; a sustainable, stable, safe state of the facilities under surveillance; and cost-optimized completion of actions to achieve a final end state that is an accepted completion of the decommissioning process as required by the regulator. The time-frame recognizes that the major nuclear facilities at Chalk River, including medical isotopes production, will require a managed and active site for a minimum of 100 years into the future. The provision has been discounted at a 5.75% risk-free rate.

The funding of actual expenditures of \$39.9 million (2002 - \$24.8 million) is described in Notes 10 and 12.

10. Parliamentary Appropriations

The use of government funding by the Corporation was as follows:

(thousands of dollars)	2003	2002
Research operating expenses	\$ 109,738	\$ 134,238
Security enhancements	1,762	2,200
Chalk River site refurbishment	-	4,715
Year 2000 reduction in appropriation	(4,866)	(4,866)
	106,634	136,287
Program Integrity - Decommissioning activities	31,000	17,000
Capital contribution from shareholder	-	47,000
Capital:		
Security enhancements	6,938	4,900
Chalk River site refurbishment	-	5,285
	6,938	10,185
	\$ 144,572	\$ 210,472

Government funding in 2002-2003 included ongoing support for nuclear research programs and for programs under the government's Program Integrity initiative for health and safety upgrades, including the safe long-term management of nuclear materials or waste, less the second of a five-

year reduction in appropriation on account of \$24.5 million received in prior years to assist in defraying Year 2000 computer costs. Included in the 2002-2003 amount, funding of \$8.7 million (2002 - \$7.1 million) was received for programs undertaken to enhance security at AECL sites.

11. Employee Future Benefits

a) Other Employee Future Benefits

The Corporation adopted the practice of deferring actuarial gains and losses on employee future benefits other than pensions with subsequent amortization over the average remaining life expectancy of the employees.

The Corporation sponsors certain post-employment benefits as described in note 2(l). The discount rate used to calculate the interest cost on the accrued future benefit obligation is based on corporate high yield bonds with the same expected duration as the employee future benefits. The following table provides information about these plans.

(thousands of dollars)	2003	2002
For the year		
Current service cost	\$ 2,871	\$ 2,567
Interest on accrued benefit obligation	4,046	3,992
Benefits paid	(4,612)	(4,455)
As at March 31		
Accrued benefit obligation	\$ 56,552	\$ 54,247
Current portion	(5,631)	(5,106)
	\$ 50,921	\$ 49,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. Long-term Debt

(thousands of dollars) 2003 2002

Loans from Government of Canada

To finance leased heavy water and other assets,
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Current portion

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2006 1,000

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2008 1,000

Subsequent to 2008 500

\$ 5,507

9. Decommissioning and Site Remediation Provision

When prototype reactors, heavy water plants, nuclear research, development and other facilities have no further commercial or research value to the Corporation, they are retired and subsequently decommissioned in accordance with Canadian Nuclear Safety Commission regulations. Due to the variety of facilities, the decommissioning process may differ in each case. In some situations decommissioning activities are carried out in stages with intervals of several decades between them to allow radioactivity to decay before moving on to the next stage. Activities include dismantling, decontamination, residual waste storage and disposal.

The estimated future decommissioning and site remediation costs require that judgments be made about the regulatory environment, health and safety considerations, the desired end-state, technology to be employed and, in some cases, research and development for these activities that extend well into the future. Significant assumptions underlying many operational and technical factors are also used in the calculation of the accrued liability and are subject to periodic review. Changes to these assumptions, as well as changes to the timing of the programs or the technology employed, or changes in the standards

and regulations governing the decommissioning of nuclear facilities, could result in material changes to the value of the accrued liabilities. With programs of this duration and the evolving technology, there is a degree of risk surrounding the measurement of the costs for these programs, which may change over time. The Corporation has prepared a broad plan of activities to be carried out over the next 100 years. The plan follows a hierarchy of decommissioning activities to achieve: a controlled and controllable state for all redundant nuclear facilities that removes short-term risks; a sustainable, stable, safe state of the facilities under surveillance; and cost-optimized completion of actions to achieve a final end state that is an accepted completion of the decommissioning process as required by the regulator. The time-frame recognizes that the major nuclear facilities at Chalk River, including medical isotopes production, will require a managed and active site for a minimum of 100 years into the future. The provision has been discounted at a 5.75% risk-free rate.

The funding of actual expenditures of \$39.9 million (2002 - \$24.8 million) is described in Notes 10 and 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Parliamentary Appropriations

The use of government funding by the Corporation was as follows:

(thousands of dollars)	2003	2002
Research operating expenses	\$ 109,738	\$ 134,238
Security enhancements	1,762	2,200
Chalk River site refurbishment	-	4,715
Year 2000 reduction in appropriation	(4,866)	(4,866)
	106,634	136,287
Program Integrity - Decommissioning activities	31,000	17,000
Capital contribution from shareholder	-	47,000
Capital:		
Security enhancements	6,938	4,900
Chalk River site refurbishment	-	5,285
	6,938	10,185
	\$ 144,572	\$ 210,472

Government funding in 2002-2003 included ongoing support for nuclear research programs and for programs under the government's Program Integrity initiative for health and safety upgrades, including the safe long-term management of nuclear materials or waste, less the second of a five-

year reduction in appropriation on account of \$24.5 million received in prior years to assist in defraying Year 2000 computer costs. Included in the 2002-2003 amount, funding of \$8.7 million (2002 - \$7.1 million) was received for programs undertaken to enhance security at AECL sites.

11. Employee Future Benefits

a) Other Employee Future Benefits

The Corporation adopted the practice of deferring actuarial gains and losses on employee future benefits other than pensions with subsequent amortization over the average remaining life expectancy of the employees.

The Corporation sponsors certain post-employment benefits as described in note 2(i). The discount rate used to calculate the interest cost on the accrued future benefit obligation is based on corporate high yield bonds with the same expected duration as the employee future benefits. The following table provides information about these plans.

(thousands of dollars)	2003	2002
For the year		
Current service cost	\$ 2,871	\$ 2,567
Interest on accrued benefit obligation	4,046	3,992
Benefits paid	(4,612)	(4,455)
As at March 31		
Accrued benefit obligation	\$ 56,552	\$ 54,247
Current portion	(5,631)	(5,106)
	\$ 50,921	\$ 49,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The excess of the cumulative unamortized actuarial gains or losses in excess of 10% of the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the other employee future benefits plan

is 11 years (2002-11 years). The latest actuarial valuation of these benefits was performed in 2002-2003.

The significant actuarial assumptions used in calculating the accrued benefit obligation are as follows:

	2003	2002
Discount rate	6.75%	6.75%
Rate of compensation increase	3% + merit	3% + merit

b) Pensions

The Corporation's employee pension benefits are covered through the Public Service Superannuation Plan as disclosed in note 2(k).

Employer contributions made to the Public Service Superannuation Plan on behalf of employees are as follows:

(thousands of dollars)	2003	2002
Payments to the Public Service Superannuation Plan	\$ 33,032	\$ 29,006

The Corporation's rate of contribution to the Public Service Pension Fund is a 2.14 multiple of the employee contributions.

12. Contributed Capital and Deferred Decommissioning Funding

Included in contributed capital is approximately \$335 million (2002 - \$342 million) related to parliamentary appropriations received for the production of heavy water inventory. Up to and including 1995-1996, the Corporation was required to repay the government, by way of a dividend, the net proceeds from the sale of government funded heavy water. A 1997 Decision of the Treasury Board directs the Corporation to hold the proceeds from the sale or lease of government funded heavy water in a segregated fund for use in decommissioning activities for the 10-year period following the Decision. Commencing in 1996-1997, as government funded heavy water is sold or leased, the net proceeds are transferred from contributed capital to deferred decommissioning funding which is used to fund ongoing decommissioning activities.

In 2002-03, the Corporation fully depleted the segregated fund and advanced funds to finance the remaining decommissioning activities. In accordance with the Treasury Board Decision, the Corporation recorded such advance as a receivable. The Corporation continues to account for these transactions as a reversal of the originally established contributed capital.

Subsequent to 2005-2006, unless the Decision is renewed, the prior arrangement will apply whereby net proceeds would be repayable to the government and decommissioning activities would be funded through parliamentary appropriations. Accordingly, the Corporation expects that the government will continue to finance this obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Related Party Transactions

In addition to the transactions disclosed in Notes 8, 10 and 11, the Corporation had the following

(thousands of dollars)

	2003	2002
Repayment of loans		
Principal	\$ 1,029	\$ 1,027
Interest	172	385
	<u>\$ 1,201</u>	<u>\$ 1,412</u>

In the normal course of business, the Corporation also enters into various transactions with the Government of Canada, its agencies and other

transactions with the Government of Canada:

Crowns. These transactions are recorded at the exchange amount.

14. Contingent Liabilities

a) Performance guarantees

It is industry practice to use letters of credit, surety bonds and other performance guarantees on major contracts. Such guarantees may include guarantees that a project will be completed or that a project or particular equipment will achieve defined performance criteria. The aggregate amount of the Corporation's potential exposure under the guarantees is estimated to be \$164 million as at March 2003 (2002 - \$197 million). Management does not expect these guarantees would result in material impact on the consolidated financial statements of the Corporation.

b) Other

In the normal course of operations, AECL becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at March 31, 2003 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on AECL's financial position or results of operations.

15. Comparative Figures

Certain 2001-2002 amounts have been reclassified to conform with the current year's presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The excess of the cumulative unamortized actuarial gains or losses in excess of 10% of the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the other employee future benefits plan

is 11 years (2002-11 years). The latest actuarial valuation of these benefits was performed in 2002-2003.

The significant actuarial assumptions used in calculating the accrued benefit obligation are as follows:

	2003	2002
Discount rate	6.75%	6.75%
Rate of compensation increase	3% + merit	3% + merit

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**Bank
of Canada**



BANK OF CANADA

FINANCIAL REPORTING RESPONSIBILITY

The accompanying financial statements of the Bank of Canada have been prepared by management in accordance with Canadian generally accepted accounting principles and, if necessary, contain certain items that reflect best estimates and judgment of management. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the Annual Report is consistent with the financial statements.

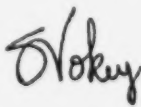
In support of its responsibility, management has developed and maintains financial and management control systems and practices to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively. The Bank has an internal Audit Department, whose functions include reviewing internal controls and their application on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board. The Audit Committee is composed of members who are neither officers nor employees of the Bank and who are financially literate, with at least one member who is a financial expert. The Audit Committee is therefore qualified to review the Bank's annual financial statements and to recommend their approval by the Board of Directors. The Audit Committee meets with management, the Internal Auditor, and the Bank's external auditors appointed by Order-in-Council. The Audit Committee has established processes to evaluate the independence of the Bank's external auditors and reviews all services provided by them. The Audit Committee has a duty to review the adoption of, and changes in, accounting principles and procedures that have material effect on the financial statements, and to review and assess key management judgment and estimates material to the reported financial information.

These financial statements have been audited by the Bank's external auditors, Raymond Chabot Grant Thornton, General Partnership and Deloitte & Touche LLP, and their report is presented herein.



D.A. Dodge, Governor



S. Vokey, CA, Chief Accountant

Ottawa, Canada

AUDITORS OF THE BANK OF CANADA
VÉRIFICATEURS DE LA BANQUE DU CANADA

AUDITORS' REPORT

To the Minister of Finance, registered shareholder of the Bank of Canada

We have audited the balance sheet of the Bank of Canada as at 31 December 2002 and the statement of revenue and expense for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2002 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at 31 December 2001 and for the year then ended were audited by Raymond Chabot Grant Thornton, General Partnership and Arthur Andersen LLP who expressed an opinion without reservation in their report dated 18 January 2002.

Raymond Chabot Grant Thornton

RAYMOND CHABOT GRANT THORNTON
General Partnership
Chartered Accountants

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants

Ottawa, Canada
17 January 2003

BANK OF CANADA

STATEMENT OF REVENUE AND EXPENSE

Year ended 31 December 2002

	2002	2001
	Millions of dollars	
REVENUE		
Revenue from investments, net of interest paid on deposits of \$8.3 million (\$23.2 million in 2001)	<u>2,016.6</u>	<u>2,149.2</u>
EXPENSE by function (notes 1 and 3)		
Monetary policy	51.1	43.4
Currency	78.8	65.6
Central banking services	<u>41.0</u>	<u>31.1</u>
	<u>170.9</u>	<u>140.1</u>
Retail debt services expenses	70.3	73.6
Retail debt services outsourcing costs	-	23.2
Retail debt services recoveries	<u>(70.3)</u>	<u>(96.8)</u>
	<u>170.9</u>	<u>140.1</u>
OTHER EXPENSE		
Restructuring and related costs (note 11)	<u>23.3</u>	<u>28.7</u>
	<u>194.2</u>	<u>168.8</u>
NET REVENUE PAID TO RECEIVER GENERAL FOR CANADA	<u>1,822.4</u>	<u>1,980.4</u>

(See accompanying notes to the financial statements.)

BANK OF CANADA

BALANCE SHEET

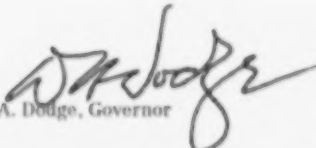
As at 31 December 2002

	2002	2001
	Millions of dollars	
ASSETS		
Deposits in foreign currencies		
U.S. dollars	674.2	391.9
Other currencies	4.4	3.8
	<u>678.6</u>	<u>395.7</u>
Advances to members of the Canadian Payments Association	534.9	647.5
Investments (note 4)		
Treasury bills of Canada	13,113.1	12,605.6
Other securities issued or guaranteed by		
Canada maturing within three years	8,571.3	8,799.8
Other securities issued or guaranteed by		
Canada not maturing within three years	18,648.7	16,976.7
Other bills	-	428.8
Other investments	2.6	2.6
	<u>40,335.7</u>	<u>38,813.5</u>
Bank premises (note 5)	135.1	149.2
Other assets		
Securities purchased under resale agreements	1,904.8	1,410.7
All other assets (note 6)	369.7	387.9
	<u>2,274.5</u>	<u>1,798.6</u>
	<u>43,958.8</u>	<u>41,804.5</u>

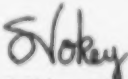
(See accompanying notes to the financial statements.)

LIABILITIES AND CAPITAL

	2002	2001
	Millions of dollars	
Bank notes in circulation	41,146.7	38,820.6
Deposits		
Government of Canada	534.6	1,005.2
Banks	1,065.5	1,307.1
Other members of the Canadian Payments Association	125.8	23.8
Other deposits	415.0	289.6
	<u>2,140.9</u>	<u>2,625.7</u>
Liabilities in foreign currencies		
Government of Canada	516.2	224.6
Other liabilities		
All other liabilities	125.0	103.6
	<u>43,928.8</u>	<u>41,774.5</u>
Capital		
Share capital (note 7)	5.0	5.0
Statutory reserve (note 8)	25.0	25.0
	<u>30.0</u>	<u>30.0</u>
	<u>43,958.8</u>	<u>41,804.5</u>

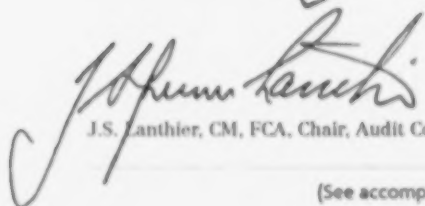


D.A. Dodge, Governor



S. Vokey, CA, Chief Accountant

On behalf of the Board



J.S. Lanthier, CM, FCA, Chair, Audit Committee



P. Massicotte, Lead Director

(See accompanying notes to the financial statements.)

BANK OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2002

1. The business of the Bank

The Bank of Canada's responsibilities focus on the goals of low and stable inflation, a safe and secure currency, financial stability, and the efficient management of government funds and public debt. These responsibilities are carried out as part of the broad functions described below. Expenses in the *Statement of revenue and expense* are reported on the basis of these four corporate functions as derived through the Bank's allocation model.

Monetary policy

Contributes to solid economic performance and rising living standards for Canadians by keeping inflation low, stable, and predictable.

Currency

Designs Canada's bank notes (including anti-counterfeiting features), issues and distributes new bank notes, and replaces worn notes.

Central banking services

Promotes financial system stability and provides efficient funds-management services to the federal government.

Retail debt services

Ensures that all holders of Canada Savings Bonds and Canada Premium Bonds have their information registered and their accounts serviced through efficient operations and systems support. The Bank recovers the cost of retail debt operations on a full-cost basis.

2. Significant accounting policies

The financial statements of the Bank are in accordance with Canadian generally accepted accounting principles and conform to the disclosure and accounting requirements of the Bank of Canada Act and the Bank's bylaws. A *Statement of cash flows* has not been prepared as the liquidity and cash position of the Bank are not of primary concern to users of these financial statements. Other information regarding the Bank's activities may be derived from the *Statement of revenue and expense* and the *Balance sheet*.

The significant accounting policies of the Bank are:

a) Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Bank may undertake in the future. Actual results may differ from those estimates.

b) Revenues and expenses

Revenues and expenses are accounted for on the accrual basis.

c) Employee benefit plans

The Bank sponsors a number of defined-benefit plans that provide pension and other post-retirement and post-employment benefits to most of its employees. The Bank accrues its obligations under these benefit plans and the related costs, net of plan assets. The costs of the plans are actuarially determined using the projected benefit method to determine the current service costs. Past service costs resulting from plan amendments, and the transitional balances are amortized on a straight-line basis over the average remaining service period of active plan members (12 years). The excess of the net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active plan members (12 years). For the purpose of calculating the expected return on plan assets, assets are valued at fair value.

d) Translation of foreign currencies

Assets and liabilities in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at year-end. Investment income is translated at the rate in effect at the date of the transaction. The resulting gains and losses are included in the *Statement of revenue and expense*.

e) Advances

Advances to members of the Canadian Payments Association are liquidity loans that are fully collateralized and generally overnight in duration. The Bank charges interest on advances under the Large Value Transfer System (LVTS) at the Bank Rate. For advances under the Automated Clearing Settlement System (ACSS), the Bank charges the Bank Rate plus a margin, which was 125 basis points at 31 December 2002 (150 basis points in 2001).

f) Investments

Investments, consisting mainly of Government of Canada treasury bills and bonds, are recorded at cost and are adjusted for amortization of purchase discounts and premiums using the constant-yield method for treasury bills and bankers' acceptances and the straight-line method for bonds. The amortization, as well as gains and losses on disposition, are included in the *Statement of revenue and expense*.

g) Bank premises

Bank premises, consisting of land, buildings, computer hardware/software and other equipment, are recorded at cost less accumulated depreciation. Computer software is capitalized only when its cost exceeds \$2 million. Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets, as shown below.

Buildings	25 to 40 years
Computer hardware/software	3 to 7 years
Other equipment	5 to 15 years

h) Special purchase and resale agreements (SPRAs)

SPRAs are repo-type transactions in which the Bank offers to purchase Government of Canada securities from designated counterparties with an agreement to sell them back at a predetermined price on the agreed resale date, generally the next business day. The Bank is prepared to enter into SPRAs at the policy target rate, defined as the mid-point of the operating band for the overnight interest rate (i.e., 25 basis points below the Bank Rate), if overnight funds are generally trading above the indicated target level. SPRAs are transacted with primary dealers, a subgroup of government securities distributors that have reached a threshold level of activity in the Government of Canada debt markets.

The balance sheet category *Securities purchased under resale agreements* represents the value receivable by the Bank. As such, this amount includes the purchase of treasury bills and bonds, the purchase of accrued interest on bonds, and the interest earned by the Bank. The treasury bills and bonds purchased under resale agreements are not recorded as investment assets.

i) Deposits

The liabilities within this category are Canadian-dollar demand deposits. For members of the Canadian Payments Association, the Bank pays interest on positive balances associated with the LVTS at the lower end of the operating band for the overnight interest rate (50 basis points below the Bank Rate), and on positive balances related to the ACSS at the lower end of the operating band for the overnight interest rate less a margin, which was 125 basis points at 31 December 2002 (150 basis points in 2001). On Special Deposit Accounts, which serve as collateral for LVTS participants, the Bank pays interest at the published overnight rate less a margin, which was 6.25 basis points at 31 December 2002 (6.25 basis points in 2001).

j) Sale and repurchase agreements (SRAs)

SRAs are reverse repo-type transactions in which the Bank offers to sell Government of Canada securities to designated counterparties with an agreement to buy them back at a predetermined price the next business day. The Bank is prepared to enter into SRAs at the policy target rate, defined as the midpoint of the operating band for the overnight interest rate (i.e., 25 basis points below the Bank Rate), if overnight funds are generally trading below the indicated target level. SRAs are transacted with primary dealers, a subgroup of government securities distributors that have reached a threshold level of activity in the Government of Canada debt markets.

k) Securities Lending Program

In 2002, the Bank implemented a Securities Lending Program to support the liquidity of Government of Canada securities by providing a secondary and temporary source of these securities to the market. These securities-lending transactions are fully collateralized and are generally overnight in duration. The securities loaned continue to be accounted for as investment assets. Lending fees charged by the Bank on these transactions are included in revenue at the date of the transaction.

l) Insurance

The Bank does not insure against direct risks of loss to the Bank, except for potential liabilities to third parties and where there are legal or contractual obligations to carry insurance. Any costs arising from these risks are recorded in the accounts at the time they can be reasonably estimated.

3. Expense by classes of expenditure

	2002	2001
	Millions of dollars	
Salaries	69.9	83.4
Benefits and other staff expenses	15.3	13.8
Currency costs	31.9	24.6
Premises maintenance	17.9	18.9
Services and supplies	90.5	54.3
Depreciation	24.3	26.3
	<u>249.8</u>	<u>221.3</u>
Outsourcing costs	-	23.2
Recoveries		
Retail debt services	(70.3)	(96.8)
Other	(8.6)	(7.6)
	<u>170.9</u>	<u>140.1</u>
Restructuring and related costs	23.3	28.7
Total	<u>194.2</u>	<u>168.8</u>

Recoveries represent the fees charged by the Bank for a variety of services. Retail debt services recoveries for 2001 include outsourcing costs.

4. Investments

	2002			2001		
	Millions of dollars					
Securities	Amortized cost	Fair market value	Average yield %	Amortized cost	Fair market value	Average yield %
Treasury bills of Canada	13,113.1	13,126.3	3.0	12,605.6	12,655.3	3.3
Other securities issued or guaranteed by Canada maturing within 3 years	8,571.3	8,883.8	5.6	8,799.8	9,133.9	6.0
Other securities issued or guaranteed by Canada not maturing within 3 years	18,648.7	20,407.1	6.0	16,976.7	18,165.0	6.3
Other bills	—	—	—	428.8	428.8	2.3
	40,333.1	42,417.2		38,810.9	40,383.0	
Other investments	2.6	2.6		2.6	2.6	
	40,335.7	42,419.8		38,813.5	40,385.6	

The Bank typically holds its investments in treasury bills and bonds until maturity. The amortized book values of these investments approximate their par values. There were no securities loaned under the Securities Lending Program at 31 December 2002.

5. Bank premises

	2002			2001		
	Millions of dollars					
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land and buildings	167.5	78.3	89.2	167.5	74.9	92.6
Computer hardware/software	53.5	42.7	10.8	55.2	37.4	17.8
Other equipment	135.5	105.9	29.6	139.4	102.4	37.0
	356.5	226.9	129.6	362.1	214.7	147.4
Project in progress	5.5	—	5.5	1.8	—	1.8
	362.0	226.9	135.1	363.9	214.7	149.2

The project in progress consists of the replacement of the Bank's Automated Systems that form the core of foreign reserves management. Depreciation, on a straight-line basis over 5 years, will commence in 2003 upon completion of the project.

6. All other assets

This category includes accrued interest on investments of \$267.9 million (\$279.0 million in 2001). It also includes the pension accrued benefit asset of \$70.7 million (\$55.6 million in 2001).

7. Share capital

The authorized capital of the Bank is \$5.0 million divided into 100,000 shares with a par value of \$50 each. The shares are fully paid and, in accordance with the Bank of Canada Act, have been issued to the Minister of Finance, who is holding them on behalf of the Government of Canada.

8. Statutory reserve

The rest fund was established in accordance with the Bank of Canada Act and represents the statutory reserve of the Bank. The statutory reserve was accumulated out of net revenue until it reached the stipulated maximum amount of \$25.0 million in 1955.

9. Employee benefit plans

The Bank sponsors a number of defined-benefit plans that provide pension and other post-retirement and post-employment benefits to most of its employees. The pension plans provide benefits under a Registered Pension Plan and a Supplementary Pension Arrangement. The following table provides information about these plans.

	Pension benefit plan		Other benefit plans	
	2002	2001	2002	2001
	Millions of dollars		Millions of dollars	
For the year				
Bank contributions	2.7	2.0	5.4	5.7
Employees' contributions	5.1	0.4	-	-
Benefits paid	22.0	20.8	5.4	5.7
Benefit plan expense (revenue)	(12.4)	(15.1)	13.3	14.7
Curtailment loss	-	-	2.7	8.9
	Pension benefit plan		Other benefit plans	
	2002	2001	2002	2001
	Millions of dollars		Millions of dollars	
As at 31 December				
Accrued benefit obligation	612.1	486.4	106.4	87.4
Fair value of plan assets	639.2	690.6 ^a	-	-
Plans' surplus (deficit)	27.1	204.2	(106.4)	(87.4)
Accrued benefit asset (liability)	70.7	55.6	(51.5)	(41.0)

a. The valuation of the plan assets disclosed in the 2001 Financial Statements was determined as of 4 October 2001. The prior year comparative numbers have been amended to reflect the valuation as at 31 December 2001.

The increase in the pension plans' accrued benefit obligation of \$125.7 million (\$40.2 million in 2001) from 2001 to 2002 is primarily a result of the following factors: a decrease in the discount rate used for accounting purposes \$24.2 million (\$26.0 million in 2001); updating of economic and demographic assumptions \$30.1 million (nil in 2001); and changes to member benefits \$31.0 million (nil in 2001).

The significant actuarial assumptions (weighted averages as of 31 December) used in calculating the accrued benefit obligations are as follows.

	Pension benefit plans		Other benefit plans	
	2002	2001	2002	2001
Discount rates	5.50%	5.75%	5.30%	5.99%
Expected rates of return on plan assets for the year	6.00%	5.70%	N/A	N/A
Rate of compensation increase	4.00%	3.00%	4.00%	3.00%
	+ merit	+ merit	+ merit	+ merit

Interest rates for Government of Canada marketable bonds are used. These rates are lower than those used by the Bank for funding valuations of the pension benefit plans and hence show a lower surplus.

For measurement purposes, a 9.0 per cent annual rate of increase in the per capita cost of covered hospital and drug benefits was assumed. The rate was assumed to decrease gradually to 4.5 per cent over 10 years and remain at that level thereafter. The per capita cost of other health care benefits was assumed to increase at 3.0 per cent per annum.

10. Commitments

a) Operations

In 2001, the Bank entered into a long-term support agreement for retail debt services, expiring in 2011. As at 31 December 2002, fixed payments totalling \$119.2 million remained, plus a variable component based on the volume of transactions. The Bank recovers the cost of retail debt services from the Canada Investment and Savings Agency.

Commitments related to other support services are \$5.3 million over the next two years.

b) Foreign currency contracts

The Bank is a participant in foreign currency swap facilities with the U.S. Federal Reserve for US\$2 billion, the Banco de México for Can\$1 billion and with the Exchange Fund Account of the Government of Canada. There were no drawings under any of those facilities in 2002 or 2001 and, therefore, there were no commitments outstanding at 31 December 2002.

c) Investment contracts

In the ordinary course of business, the Bank enters into commitments involving the purchase and sale of securities. All commitments outstanding at 31 December are settled in the subsequent year. A summary of these outstanding commitments follows.

	2002	2001
	Millions of dollars	
Investment contracts – sales	1,906.1	1,411.1

Outstanding sale investment contracts of \$1,906.1 million, at an interest rate of 2.74 per cent under special purchase and resale agreements, were settled by 17 January 2003 (\$1,411.1 at the end of 2001 at an interest rate of 2.25 per cent).

11. Restructuring and related costs

Outsourcing

In 2000, the Bank launched a major initiative to outsource the administration of the retail debt program to a private sector supplier, while maintaining its role as fiscal agent for retail debt. Under the terms of a contract with EDS Canada for the provision of operations and system support, Bank staff joined EDS in its Ottawa offices. This contract is for a term of 9.5 years and commenced 1 September 2001. The total one-time cost of outsourcing associated with this initiative was \$23.2 million in 2001, all of which was recoverable from the Canada Investment and Savings Agency of the federal government.

Restructuring

With the outsourcing initiative completed, the Bank has undertaken to restructure its corporate services to align them with the needs of a smaller organization. This restructuring program is scheduled for completion in 2003. The following table provides information about the non-recurring costs associated with this program.

	2002	2001
	Millions of dollars	
Restructuring project costs	14.3	8.1
Staff redundancies	–	5.8
Curtailment loss from post-retirement benefits (note 9)	2.7	8.9
Unallocated corporate administration costs	6.3	5.9
Total	23.3	28.7

In 2001, a liability of \$5.8 million was established to meet future obligations related to staff redundancies. During 2002, no increase to this established liability was recorded and \$1.4 million of the liability was utilized. The amount outstanding as at 31 December 2002 is \$4.4 million and is included in All Other Liabilities.



**Blue
Water Bridge
Authority**



Management's Responsibility for the Financial Statements

MANAGEMENT'S REPORT

The financial statements and all other information contained herein are the responsibility of management and have been reviewed and approved by the Commissioners of the Authority. These financial statements, which include amounts based on management's best estimates as determined through experience and judgment, have been properly prepared and are in accordance with Canadian generally accepted accounting principles.

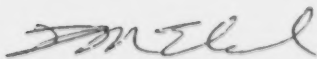
Management of the Authority maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with the by-laws of the Blue Water Bridge Authority, the *Financial Administration Act* and the *Blue Water Bridge Authority Act*.

The Auditor General of Canada conducts an independent audit of the annual financial statements and reports on the audit to the Minister of Transport.

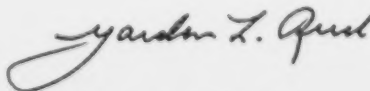
The Board of Directors' Audit Committee, which consists of four members, none of whom is an officer of the Authority, reviews and advises the Board on the financial statements and the Auditor General's report thereto. The Audit Committee meets with management and the Auditor General on a regular basis to discuss the financial reporting process as well as auditing, accounting and reporting issues.

Sarnia, Ontario
Canada

October 24, 2002



Dan M. Elash, P.Eng., C.I.M.
President and CEO



Gordon L. Reed, CMA
Controller / Treasurer



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of Blue Water Bridge Authority as at 31 August, 2002 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at 31 August 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in accounting principle for employee future benefits as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Blue Water Bridge Authority Act* and the by-laws of the Authority.

The financial statements for the preceding year were audited by BDO Dunwoody LLP, who expressed an opinion without qualification in their report dated 24 September, 2001.

Sylvain Ricard, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
24 October, 2002

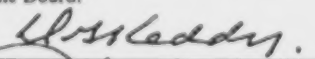
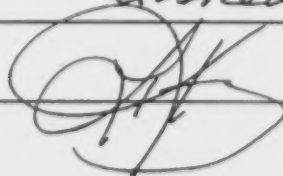
**Blue Water Bridge Authority
Financial Statements**

Balance Sheet

As at August 31	2002	2001
Assets		
Current		
Cash (Note 4)	\$ 12,355,867	\$ 4,060,688
Short-term investments (Note 4)	10,570,895	-
Accounts receivable	697,515	782,548
Prepaid expenses	375,600	164,454
	<u>23,999,877</u>	<u>5,007,690</u>
Deferred charges (Note 5)		
Bond agency fees	721,706	-
Long-term investments (Note 4)	27,906,584	-
Property, plant and equipment (Note 6)	108,031,769	107,020,732
Restricted assets (Note 8)		
Debt service reserve fund	4,521,347	1,688,292
Operating & maintenance reserve fund	2,009,679	792,555
	<u>6,531,026</u>	<u>2,480,847</u>
	<u>\$ 167,190,962</u>	<u>\$ 114,509,269</u>
Liabilities and Equity		
Current		
Bank indebtedness	\$ -	\$ 1,000,000
Accounts payable and accrued liabilities	1,556,834	1,174,898
Holdbacks payable	-	229,459
Tolls paid in advance	1,268,024	917,486
Current portion of long-term debt (Note 11)	1,864,586	3,399,996
	<u>4,689,444</u>	<u>6,721,839</u>
Employee future benefits liability (Notes 3 and 12)	1,495,967	1,373,396
Long-term debt (Note 11)	108,135,414	52,650,005
	<u>114,320,825</u>	<u>60,745,240</u>
Equity	52,870,137	53,764,029
	<u>\$ 167,190,962</u>	<u>\$ 114,509,269</u>

The accompanying notes form an integral part of the financial statements.

On behalf of the Board:


 _____ Commissioner

 _____ Commissioner

Statement of Operations and Equity

For the year ended August 31	2002	2001
Revenues		
Tolls and services	\$ 17,093,273	\$ 14,925,607
Facility rentals	3,362,788	3,299,700
Currency exchange department	1,140,263	1,281,951
Interest and sundry revenues	441,662	281,482
	<u>22,037,986</u>	<u>19,788,740</u>
Expenses		
General and administrative (Note 14)	2,404,942	2,273,199
Human resources (Note 14)	3,694,986	3,462,636
Interest on long - term debt	4,937,599	4,681,737
Interest on line of credit	104,652	49,152
Maintenance and other expenses (Note 14)	1,274,788	1,434,234
Amortization-plant, property, equipment	2,524,272	2,404,003
Amortization-bond agency fees	4,844	-
(Gain) Loss on disposal of property, plant and equipment	105,036	(32,357)
	<u>15,051,119</u>	<u>14,272,604</u>
Excess of revenues over expenses before non-recurring items	6,986,867	5,516,136
Non-recurring items		
Loan breakage costs (Note 10)	7,880,760	-
Excess (short-fall) of revenues over expenses	(893,893)	5,516,136
Equity, beginning of year	53,764,030	49,510,894
Adjustment to equity, beginning of year		
Change in accounting principle (Note 3)	-	(1,263,000)
Equity, beginning of year restated	53,764,030	48,247,894
Excess (short-fall) of revenues over expenses	(893,893)	5,516,136
Equity, end of year	\$ 52,870,137	\$ 53,764,030

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows

For the year ended August 31

	2002	2001
Cash Flows from operating activities		
Excess (short-fall) of revenues over expenses	\$ (893,893)	\$ 5,516,136
Adjustments for items not affecting cash		
Amortization of property, plant and equipment	2,524,272	2,404,003
Amortization of bond agency fees	4,844	-
(Gain) Loss on disposal of property, plant and equipment	105,036	(32,357)
Foreign exchange (gain) loss	33,854	(26,492)
	<u>1,774,113</u>	<u>7,861,290</u>
Changes in non-cash working capital items		
Accounts receivable	85,033	(141,057)
Short-term investments	(10,570,895)	-
Prepaid expenses	(211,146)	(88,245)
Accounts payable and accrued liabilities	381,936	206,101
Holdbacks payable	(229,459)	106,230
Tolls paid in advance	350,538	165,449
Employee future benefits liability	122,571	110,396
	<u>(10,071,422)</u>	<u>358,874</u>
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment		65,100
Purchase of property, plant and equipment	(3,640,344)	(6,603,432)
Increase in long-term investments	(27,906,584)	-
Increase in restricted assets	(4,050,179)	(137,089)
	<u>(35,597,107)</u>	<u>(6,675,421)</u>
Cash flows from financing activities		
Bond agency fees	(726,550)	-
Reduction in long-term debt bank loan payable - current portion	(3,399,996)	(3,399,996)
Increase in long-term debt - bond principal - current portion	1,864,586	-
Reduction in long-term debt bank loan payable	(52,650,005)	-
Increase in long-term debt - bond principal	108,135,414	-
	<u>53,223,449</u>	<u>(3,399,996)</u>
Foreign exchange gain (loss) on cash held in foreign currency	(33,854)	26,492
Increase (Decrease) in cash and equivalents during the year	9,295,179	(1,828,761)
Cash and equivalents, beginning of year	3,060,688	4,889,449
Cash and equivalents, end of year	\$ 12,355,867	\$ 3,060,688
Represented by		
Cash	\$ 12,355,867	\$ 4,060,688
Bank indebtedness	-	(1,000,000)
	<u>\$ 12,355,867</u>	<u>\$ 3,060,688</u>
Interest paid	\$ 4,168,644	\$ 4,720,276

The accompanying notes form an integral part of the financial statements.

Notes to Financial Information

1. Authority and Objectives

The Blue Water Bridge Authority was established by the *Blue Water Bridge Authority Act (Canada)* on May 21, 1964. On April 26, 2002 the Authority became a Parent Crown corporation, and as such, is listed under Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

The Blue Water Bridge complex includes the Canadian portion of two international toll bridges connecting Sarnia, Ontario, Canada with Port Huron, Michigan, USA. The westbound bridge was completed in October, 1938 and the eastbound bridge in July, 1997. Under the direction and guidance of the Minister of Transport the mandate of the Blue Water Bridge Authority is to operate, maintain and repair the Canadian halves of the two bridges, approaches and structures.

The *Blue Water Bridge Authority Act* and the *Customs Act*, Section 6, require the Authority to provide, equip and maintain, free of charge, adequate buildings, accommodation or other facilities for the proper detention and examination of imported goods or for the proper search of persons by customs and immigration officers.

The Authority's mission statement is:

"to provide the finest international transportation facilities on the Great Lakes"

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are set out below:

a) Financial Instruments

The Authority's financial instruments consist of cash, restricted assets, accounts receivable investments, bank indebtedness, accounts payable, accrued liabilities, holdbacks payable, tolls paid in advance, short-term and long-term debt. Unless otherwise noted, it is management's opinion that the Authority is not exposed to significant interest, currency or credit risks arising from these financial instruments.

b) Foreign Currency Translation

Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated through the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in the statement of operations in the current period.

c) Investments

All investments are of a conservative nature and are completed in accordance with the Blue Water Bridge Authority's Investment Policy.

d) Deferred Charges

The bond agency fees are amortized over the life of the bonds (25 years).

Notes to Financial Information

e) Property, Plant and Equipment—Amortization

The net value of property, plant and equipment as presented on the Balance Sheet is cost less accumulated amortization.

Amortization rates based on the estimated useful life of an asset are as follows:

Bridge -first span	2%	Straight line for 50 years
Bridge -second span	1%	Straight line for 75 years
Buildings	5%	Diminishing balance basis
Buildings -residential	-	No amortization
Equipment	10%	Diminishing balance basis
Equipment —computer	20%	Straight line for 5 years
Equipment —construction	30%	Diminishing balance basis
Property Improvements	10-20%	Diminishing balance basis
Vehicles (autos and trucks)	30%	Diminishing balance basis

f) Toll Revenue

Toll revenues are recognized and recorded at the time the tolls are collected when the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

g) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the report amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Employee-related liabilities and the useful life expectancy predictions for property, plant and equipment are the most significant items where estimates are used. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Change in Accounting Principle

In the current year the Authority adopted, on a retroactive basis, CICA accounting standards for employee future benefits. The Authority accrues its obligations under employee benefit plans and the related costs. The comparative amounts for the year ended August 31, 2001 have been restated. The cumulative adjustment to the opening surplus is \$1,373,396 as at September 1, 2001 (\$1,263,000 as at September 1, 2000). Employee benefits for the year ended August 31, 2002 were \$122,571 (\$110,396 prior year). The change in accounting principle was completed on a retroactive basis with restatement.

4. Cash and Investments

Cash

The Authority's bank accounts are held at one Canadian chartered bank and at one bank in the United States. Cash (including on hand) includes US \$1,256,910 (2001— US \$665,753) which has been translated to \$1,959,397 (2001— \$1,030,415).

Notes to Financial Information

Investment policy

The Authority invests in treasury bills, promissory notes, bills of exchange or other debt securities that are unconditionally guaranteed or accepted by the Government of Canada or by a Bank or by any province of Canada; Central Government Obligations of any other country which has a bond rating of AAA or AA or equivalent; Interest bearing deposits or certificates of deposit or similar arrangements with, or discount debt obligations issued, accepted or guaranteed by any bank, trust company or other deposit taking institution in Canada, which is rated in one of the highest categories of debt by one of the Rating agencies: Commercial Paper, R-1 high, Banker's Acceptance (minimum R-1 low or higher); indebtedness of any other issuer (including any corporation) with a remaining term to maturity not to exceed one year, the long-term debt of which is rated one of the three highest categories for long-term debt by one of the Rating Agencies.

Short-term Investments

The portfolio is composed of Government of Canada Treasury bills maturing in the 2003 financial year. The market value of the portfolio as at August 31, 2002 was \$10,665,262.

Long-term Investments

The portfolio is composed of Provincial bonds (\$23,431,969 market value) and Government of Canada Treasury bills (\$4,490,099 market value).

For the year ended August 31	2002	2001
General Investments		
Cash	\$ 2,235	\$ -
Investments		
Province of Alberta	279,174	-
Province of British Columbia	329,983	-
Province of Ontario	22,093,973	-
Government of Canada	4,396,817	-
	<u>27,102,182</u>	<u>-</u>
Bridge Painting Fund		
Cash	749	-
Investments		
Province of Ontario	698,918	-
Government of Canada	104,735	-
	<u>804,402</u>	<u>-</u>
	<u>\$ 27,906,584</u>	<u>\$ -</u>
Market Value		
General Investments	27,118,459	-
Bridge Painting Fund	803,609	-
	<u>\$ 27,922,068</u>	<u>\$ -</u>

Notes to Financial Information

5. Deferred Charges

The Authority issued \$110 million in revenue bonds on July 9, 2002. The bonds are due in 2027. The agency fees amounted to \$726,550 of which \$4,844 was applicable to fiscal 2002 expense. The remaining balance of \$721,706 will be amortized over the bond's life on a straight-line basis.

6. Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Replacements and major improvements which extend the useful lives of existing assets are capitalized.

Buildings-Residential and the land on which they are situated are purchased for their land values. Prior to the 2002 financial year the acquisition costs for these properties were included in the land value. No amortization on buildings-residential is recorded. The total acquisition cost will be transferred to the land account when these buildings are demolished.

For the year ended August 31, 2002, computer equipment was amortized on a straight-line basis at 20%. For the year ended August 31, 2001, computer equipment was amortized on a diminishing balance basis at a rate of 10%.

Construction in process is not amortized. When projects are substantially completed the costs are transferred to the appropriate asset account and amortization is initiated.

	2002		2001	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 4,530,691	\$ -	\$ 4,536,396	\$ -
Bridges	86,626,511	4,778,516	86,626,511	3,643,470
Buildings	13,287,429	4,071,387	13,275,807	3,589,239
Buildings-booths	3,063,511	1,639,735	3,063,511	1,478,193
Buildings-leased Duty Free	5,273,284	131,571	837,086	798,251
Buildings-residential (including land)	1,905,989	-	1,782,321	-
Equipment	4,183,101	1,621,446	4,016,282	1,392,439
Equipment-computer	488,275	220,049	330,087	75,216
Construction in process	36,913	-	2,480,177	-
Property improvements	2,789,820	2,104,143	2,509,227	1,991,420
Vehicles and const. equipment	1,074,184	661,092	999,048	467,493
	<u>\$ 123,259,708</u>	<u>\$ 15,227,939</u>	<u>\$ 120,456,453</u>	<u>\$ 13,435,721</u>
Net Book Value	<u>\$ 108,031,769</u>		<u>\$ 107,020,732</u>	

7. Blue Water Bridge duty Free Shop Inc.— Operating Lease

The Authority has entered into a long-term operating lease with The Blue Water Bridge Duty Free Shop Inc. The Authority provides the building, completed in 2002 and the Duty Free shop Inc., operates the commercial facility. The lease has an initial term of 7 years ending March 2, 2009, and has three consecutive renewal periods of 7 years each at the discretion of the Duty Free Shop Inc. The Authority receives a fixed rent per month and contingent revenues based on a percentage of sales.

Notes to Financial Information

8. Restricted Assets

Debt Service Reserve Fund

In accordance with the Master Trust Indenture, on the closing date of the issuance of the bonds, the Authority established a Debt Service Reserve Fund in the amount of \$4.5 million. Thereafter the reserve must be at least equal to: (i) fifty percent (50%) of the Debt Service Amount, if the Gross Debt Service Coverage Ratio is less than 2.00:1.00; (ii) twenty-five (25%) of the Debt Service Amount if the Gross Debt Service Coverage Ratio is 2.00:1.00 or greater, but less than 3.00:1.00. In the event the Gross Debt Service Coverage Ratio is 3.00:1.00 or greater, the Authority is not required to maintain a balance in the Reserve Fund. As at August 31, the Reserve Fund contained \$4,521,347. Market value of the fund as at August 31, 2002 was \$4,517,059 (2001 -\$1,655,891)

	2002	2001
Cash	\$ 509	\$ 2,901
Investments		
Government of Canada, 3.45%, due December 1, 2004	272,495	-
Government of Canada, 5.28%, due February 1, 2003	-	794,837
Province of British Columbia, 5.58% due December 9, 2008	-	311,496
Province of Ontario, 3.36% due December 2, 2003	2,159,371	-
Province of Ontario, 3.74% due September 15, 2004	2,088,972	-
Province of Ontario, 5.34% due July 13, 2008	-	288,757
Province of Ontario, 5.37% due January 13, 2007	-	290,301
	<u>\$ 4,521,347</u>	<u>\$ 1,688,292</u>

Operating and Maintenance Contingency Fund

In accordance with the Master Trust Indenture, on the closing date of the issuance of the bonds, the Authority established an Operating and Maintenance Contingency Reserve Fund in the amount of \$2.0 million. Thereafter the reserve must be at least equal to twenty-five percent (25%) of the Operating and Maintenance expenses incurred by the Authority over the previous twelve (12) month period ending on the last day of most recently completed month. Operating and Maintenance expenses do not include amortization, extraordinary items arising from the early retirement of Borrowings or Subordinated Debt, or the interest on any Borrowings. Market value at August 31, 2002 was \$2,007,779 (2001 -\$785,414).

	2002	2001
Cash	\$ 1,035	\$ 18,465
Investments		
Government of Canada, 3.45%, due December 1, 2004	120,491	-
Government of Canada, 5.05%, due September 13, 2001	-	7,984
Government of Canada, 5.75%, due September 13, 2001	-	49,901
Province of Alberta, 5.00% due December 16, 2008	-	276,170
Province of Ontario, 3.36% due December 2, 2003	959,721	-
Province of Ontario, 4.875% due June 2, 2004	-	440,035
Province of Ontario, 3.74% due September 15, 2004	928,432	-
	<u>\$ 2,009,679</u>	<u>\$ 792,555</u>

Notes to Financial Information

9. Credit Facility

The Authority has a revolving credit facility with a Canadian chartered bank in the amount of \$20 million. The facility is secured by a pari-passu Pledge of Revenues as contained in the Master Trust Indenture and the Master Trust Second Supplemental Indenture to a Pledged Bond. Interest is payable monthly based on the Bank's Prime Lending Rate. The maximum amount that the Authority can borrow is \$125 million; therefore, only \$15 million is authorized and available as at August 31, 2002. There is no outstanding balance as at August 31, 2002.

10. Loan Breakage Costs

The loan breakage costs are attributed to the early extinguishment of a debt financing agreement, which was in place prior to the new bond issue. As these costs were not considered to be part of the new bond issue they were expensed in the current fiscal year. The loan breakage costs were classified as non-recurring in order to better reflect current operating performance.

11. Long-term Debt

On July 9, 2002 the Authority issued at a face value of \$110 million, 6.41% Revenue Bonds, payable semi-annually, Series 2002-1, due July 9, 2027.

The proceeds were used to: repay all outstanding bank loans, pay loan breakage fees, agency, subscription, and legal fees and establish the required reserve funds. The balance is to be used for future capital spending and general working capital purposes.

Year	Principal	Interest	Total
2003	\$ 1,864,586	\$ 7,021,591	\$ 8,886,177
2004	1,986,022	6,900,156	8,886,178
2005	2,115,366	6,770,812	8,886,178
2006	2,253,133	6,633,044	8,886,177
2007	2,399,874	6,486,304	8,886,178
Thereafter	99,381,019	78,342,530	177,723,549
	<u>\$ 110,000,000</u>	<u>\$ 112,154,437</u>	<u>\$ 222,154,437</u>

The Authority maintains a covenant with the Trustee and Bondholders that so long as there is any amount payable under the Master Trust Indenture, or any Bonds outstanding or any obligations under the indenture that:

- a) The principal and interest will be duly paid on the due dates.
- b) Insurance will be maintained in such types and amounts in accordance with sound business practices and standards in the industry.

Notes to Financial Information

- c) The Authority shall maintain its corporate existence pursuant to the BWBA Act and maintain its existence as a Parent Crown corporation under the Financial Administration Act (Canada) subject to its right to reorganize, merge or amalgamate in accordance with the terms of Section 6.7 of the Master Trust Indenture.
- d) Except for borrowings arising as a result of movements in the termination values of swap agreements and any purchase money obligations not exceeding in the aggregate at any time \$2 million, the Authority shall not create, incur, assume or otherwise become liable for any additional indebtedness unless it is pursuant to a supplemental Indenture.
- e) The aggregate of all borrowings, subordinated debt and purchase money obligations does not exceed any limitations on the amount of borrowings outstanding imposed upon the Authority pursuant to the BWBA Act.
- f) Toll Rate Covenant –The Authority will take all lawful measures to fix and establish toll rates and other charges so that:

The Gross Debt Service Ratio is equal to or greater than 1.25:1.00 with respect to each Fiscal Year and that the projected Debt Service Ratio is equal to or greater than 1.00:1.00 with respect to each Fiscal Year. If the ratios do not meet the preceding guidelines the Authority shall take all steps permitted under the BWBA Act to increase toll rates as may be necessary to achieve such ratios in the next succeeding Fiscal Year.

12. Employee Future Benefits Liability (Non-pension Related)

Other than pension plans, the Authority provides post retirement benefits to its eligible employees through health, life insurance and an employee assistance program. At year-end, the Authority's accrued liability benefit obligation relating to post-retirement benefit plans is \$1,495,967 as recorded on the Balance Sheet. The significant weighted-average actuarial assumptions adopted in calculating the Authority's accrued benefit obligation are as follows:

Discount Rate	6.75%
Dental benefits escalation	4.70%
Medical benefits cost escalation-extended health care	7.10%

The employee future benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued liability benefit obligation.

Employee future benefits paid by the Authority for the year ended August 31, 2002 amounted to \$30,908 (2001 is not available).

The net expense for the Authority's non-pension benefit plans for the year ended August 31, 2002 was \$122,571 (\$110,396 prior year).

13. Pension Plan

The Authority has contracted an outside life insurance firm to operate and administer an employee pension plan. Employees of the Authority may voluntarily join the pension plan, subject to eligibility requirements. The pension plan, which is a defined-contribution pension plan, is funded on a money-purchase basis with members contributing 6.5% of their annual earnings. In accordance with the plan, the Authority is required to contribute an amount equal to the member's required contribution. During the year, the Authority's pension contributions amounted to \$127,500 (2001—\$119,876).

14. Expenses

For the year ended August 31

2002

2001

General and Administrative

Audit and legal	\$ 527,165	\$ 319,388
Bond Rating Fees	111,443	-
Consultants	995,221	1,472,943
Interest and bank charges	14,254	13,775
Meetings and memberships	49,573	43,230
Office and miscellaneous	322,746	192,582
Public relations	55,427	64,504
Security	151,820	-
Telephone	83,643	71,185
Travel and entertainment	93,650	95,592
	<u>\$ 2,404,942</u>	<u>\$ 2,273,199</u>

Human Resources

Salaries and wages

Administrative and office	\$ 579,806	\$ 547,540
Currency Exchange Department	428,053	421,181
Janitorial	176,794	164,945
Maintenance	395,379	398,127
Toll collectors	1,095,515	999,663
	<u>2,675,547</u>	<u>2,531,456</u>

Benefits

Employee pension and life insurance	667,006	587,306
Employee health taxes	58,603	54,360
Employment insurance	65,324	66,865
Other	39,845	37,893
Uniforms and cleaning	30,504	38,199
Vacation pay	131,868	121,266
Workplace Safety and Insurance Board	26,289	25,291
	<u>1,019,439</u>	<u>931,180</u>
	<u>\$ 3,694,986</u>	<u>\$ 3,462,636</u>

Maintenance and Other Expenses

Equipment repairs	\$ 9,422	\$ 12,163
Fuel and other vehicle costs	45,095	35,395
Heating, hydro and water	238,627	242,797
Insurance	238,707	183,251
Janitorial supplies & waste disposal	45,460	43,782
Maintenance-supplies and services	621,401	521,606
Municipal taxes	(151,901)	173,718
Snow removal and landscaping	227,977	221,522
	<u>\$ 1,274,788</u>	<u>\$ 1,434,234</u>

15. Comparative Financial Statements

Certain information contained in the 2001 financial statements has been restated to conform to the current method of presentation and for the application of the employee future benefit recommendations contained in section 3461 of the *CICA Handbook*.

**Business
Development
Bank
of Canada**



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The financial statements of the Business Development Bank of Canada were prepared and presented by management in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year. The information contained therein normally includes amounts requiring estimations which have been made based upon informed judgment as to the expected results of current transactions and events. The financial information presented elsewhere in this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal control designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by audit and inspection staff who conduct periodic reviews of different aspects of the Bank's operations. In addition, the Vice-President, Audit and Inspection and the independent auditors have full and free access to the Audit Committee of the Board of Directors which is responsible for overseeing and reviewing management's internal control and reporting responsibilities. The Board of Directors, through the Audit Committee which is comprised of Directors who are not employees of the Bank, is responsible for reviewing and approving the audited annual financial statements.

The Bank's independent auditors, KPMG LLP, Chartered Accountants and the Auditor General of Canada have audited the Bank's financial statements and their report indicates the scope of their audit and their opinion on the financial statements.

Michel Vennart
President and Chief Executive Officer

Alan B. Marquis
Senior Vice-President, Finance and Chief Financial Officer

Montreal, Canada
May 23, 2003

AUDITORS' REPORT

To the Minister of Industry:

We have audited the balance sheet of the Business Development Bank of Canada as at March 31, 2003 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Bank as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Bank that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Business Development Bank of Canada Act* and the by-laws of the Bank.

KPMG LLP
Chartered Accountants

Sheila Fraser, FCA
Auditor General of Canada

Montreal, Canada
May 23, 2003

Ottawa, Canada
May 23, 2003

Financial Statements

BALANCE SHEET

as at March 31 (\$ in thousands)

	2003	2002
ASSETS		
Cash and short-term investments (Note 3)	\$ 730,717	\$ 632,441
Securities (Note 4)	63,259	82,655
	793,976	715,096
Loans, net of allowance for credit losses (Notes 5 and 6)	6,288,636	5,669,513
Venture capital investments (Note 7)	301,945	271,064
	6,590,581	5,940,577
Fixed assets, net of accumulated amortization	33,712	28,912
Other assets (Note 8)	373,090	212,619
	406,802	241,531
TOTAL ASSETS	\$ 7,791,359	\$ 6,897,204
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable and accrued liabilities	\$ 56,555	\$ 52,618
Accrued interest on borrowings	89,151	129,226
	145,706	181,844
Borrowings (Note 9)		
Short-term notes	3,265,368	3,444,279
Long-term notes	2,908,520	2,152,764
	6,173,888	5,597,043
Other liabilities (Note 10)	301,748	157,997
SHAREHOLDER'S EQUITY		
Share capital (Note 11)	788,400	598,400
Contributed surplus	27,778	27,778
Retained earnings	353,839	334,142
	1,170,017	960,320
Contingent liabilities and commitments (Note 16)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 7,791,359	\$ 6,897,204

The accompanying Notes to Financial Statements are an integral part of this statement.

Approved by the Board:

Terry B. Grieve,
Director

Michel Vennat,
Director

Financial Statements

STATEMENT OF INCOME AND RETAINED EARNINGS

For the year ended March 31 (\$ in thousands)

	2003	2002
Loans		
Interest income		
Interest on loans	\$ 490,027	\$ 475,070
Short-term investments and securities	24,747	32,330
	514,774	507,400
Interest expense	176,618	195,127
Net interest income	338,156	312,273
Provision for credit losses (Note 6)	98,000	95,000
Net interest income after provision for credit losses	240,156	217,273
Other income	30,800	28,372
Income before operating and administrative expenses	270,956	245,645
Operating and administrative expenses (Note 12)	176,449	165,187
Income from Loans	94,507	80,458
Consulting Group		
Revenue	18,221	18,189
Operating and administrative expenses (Note 12)	21,363	23,937
Loss from Consulting Group	(3,142)	(5,748)
Venture Capital		
Interest and dividends	1,782	3,608
Net realized gains on investments	3,752	7,825
Unrealized losses on temporary investments	(5,606)	(6,078)
Other	2,237	3,338
Investment income	2,165	8,693
Write-down of investments	50,041	18,948
Net investment loss	(47,876)	(10,255)
Operating and administrative expenses (Note 12)	11,609	10,722
Loss from Venture Capital	(59,485)	(20,977)
NET INCOME	31,880	53,733
RETAINED EARNINGS		
Beginning of year	334,142	297,126
Dividend on preferred shares	(12,183)	(16,717)
END OF YEAR	\$ 353,839	\$ 334,142

The accompanying Notes to Financial Statements are an integral part of this statement.

Financial Statements

STATEMENT OF CASH FLOWS

For the year ended March 31 (\$ in thousands)

	2003	2002
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	\$ 31,880	\$ 53,733
Adjustments to determine net cash flows:		
Net realized gains on venture capital investments	(3,752)	(7,825)
Unrealized losses on venture capital temporary investments	5,606	6,078
Provision for credit losses and write-down of venture capital investments	148,660	114,558
Amortization of fixed assets	8,977	10,355
Changes in operating assets and liabilities:		
Change in interest receivable on loans	(1,201)	1,616
Change in accrued interest on borrowings	(21,225)	(16,552)
Translation adjustment on borrowings and securities	(54,520)	(84,337)
Net change in unrealized gains and amounts receivable on derivative financial instruments	(149,282)	63,133
Net change in unrealized losses and amounts payable on derivative financial instruments	123,672	(12,782)
Net change in other assets and other liabilities	(1,315)	(4,330)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	87,500	123,647
CASH FLOWS USED IN INVESTING ACTIVITIES		
Net change in securities	15,342	(13,707)
Net change in securities purchased under resale agreements	89,823	6,201
Disbursements for loans	(2,141,799)	(1,868,894)
Disbursements for venture capital investments	(102,254)	(102,547)
Repayments of loans	1,425,877	1,157,019
Proceeds on sales of venture capital investments	19,478	20,642
Net acquisition of fixed assets	(13,777)	(6,949)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(707,310)	(808,235)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Issue of long-term notes	1,472,654	798,945
Repayment of long-term notes	(729,965)	(943,271)
Net change in short-term notes	(107,270)	875,445
Proceeds from issue of common shares	190,000	—
Dividend paid on preferred shares	(17,510)	(13,844)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	807,909	717,275
Net increase in cash and cash equivalents	188,099	32,687
Cash and cash equivalents at beginning of year	467,641	434,954
Cash and cash equivalents at end of year (note 3)	\$ 655,740	\$ 467,641
Supplemental disclosure of cash flow information		
Amount of interest paid in the year	\$ 197,843	\$ 211,679

The accompanying Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

March 31, 2003 (\$ in thousands except as otherwise indicated)

1. ACT OF INCORPORATION, OBJECTIVES AND OPERATIONS OF THE CORPORATION

The Business Development Bank of Canada (BDC) is a Crown corporation which was established by an Act of Parliament on December 20, 1974 as the Federal Business Development Bank, and continued under its current name by an Act of Parliament on July 13, 1995. The Bank is wholly-owned by the Government of Canada and is exempt from income taxes.

The objectives of the Bank are to promote and assist in the establishment and development of business enterprises in Canada, especially small and medium-sized businesses, by providing a wide range of financial and consulting services complementary to those of commercial financial institutions. The Bank offers to Canadian companies services tailored to meet the current needs of small and medium-sized businesses while earning an appropriate return on investment capital, which is used to further the Bank's activities.

To finance these objectives, the Bank issues debt instruments which are secured by the Government of Canada. *The Business Development Bank of Canada Act* also allows the issuance of hybrid capital instruments to provide the capital required for meeting the growing financial needs of Canadian small and medium-sized businesses. The Crown would not be liable for payment of amounts owing under such capital instruments.

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2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. As such, the preparation of financial statements requires that management make estimates and assumptions that affect reported amounts and disclosures in these statements. Actual results could differ from those estimates. Significant estimates include allowances for losses on loans and consideration of write-downs and disclosure of fair values of venture capital investments. A variation in the circumstances or economic conditions under which these estimates are made could result in a significant change in these management judgments. The significant accounting policies used in the preparation of these financial statements are summarized below.

Securities

Debt securities are carried at amortized cost with premiums and discounts amortized over the period to maturity. Where there has been a decline in value of a security that is other than temporary, the carrying value of the security is appropriately reduced. Interest revenue, gains and losses on disposal and adjustments to record any impairment in value that is other than temporary are included in income.

Loans

Loans are stated at principal amounts including accrued interest receivable, net of allowance for credit losses. Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired.

Loans are classified as impaired when there is a deterioration in credit quality to the extent that the Bank no longer has reasonable assurance that the full amount of principal and interest will be collected. When a loan becomes impaired, recognition of interest income ceases and any previously accrued interest that is unpaid is reversed against interest income. Any interest received on impaired loans is applied to the carrying amount of the loan unless the loan is fully secured and does not require a specific allowance, in which case interest income is recognized on a cash basis.

For impaired loans measured on the basis of expected future cash flows, as explained under *Allowance for credit losses*, the increase in present value attributable to the passage of time is recorded as interest income.

Allowance for credit losses

The allowance for credit losses is maintained at a level considered adequate to absorb the credit losses existing in the Bank's portfolio. It reflects management's best estimate of losses existing in the loan portfolio at the balance sheet date. The allowance is increased by an annual provision for credit losses which is charged against income and is reduced by write-offs, net of recoveries.

The allowance for credit losses is comprised of specific and general allowances.

Notes to Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Specific allowances are established on a loan-by-loan basis for impaired loans. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent to the loan or, if cash flows cannot be reasonably determined, by using the estimated fair value of any underlying security, net of realization costs. Initial allowances as well as subsequent changes thereto are recorded through the provision for credit losses as an adjustment to the specific allowance.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated based on historical loss experience and management's assessment of general economic and business conditions affecting the lending operations, recent loan loss experiences and trends in the credit quality of the loan portfolio.

Venture capital investments

Venture capital investments are recorded at cost, whereby interest and dividends are included in income when received. Investments in venture capital and seed capital funds over which the Bank has joint control or significant influence are accounted for using the proportionate consolidation or equity accounting method, respectively. Under these methods, the Bank accrues its share of the undistributed income or expenses of the funds. Gains or losses on disposal of investments are recognized in income when realized. However, when the value of an investment is permanently impaired, the investment is written down to recognize the loss.

Non-cash consideration received on disposal of investments is presented as temporary investments within venture capital investments and recorded at the lower of the value at the date of sale of the venture capital investment and current market value at the balance sheet date.

Fixed assets and amortization

Fixed assets are recorded at cost and amortized over their estimated useful lives, using the straight-line method as follows:

Computer equipment and software	3-7 years
Furniture and fixtures	5 years
Leasehold improvements	over the term of the lease, maximum 15 years

Premiums, discounts and debt issue expenses

Premiums, discounts and expenses related to the issue of debt are amortized on a straight-line basis over the term of the obligations to which they pertain and are charged to interest expense.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average exchange rates for the year.

All exchange gains and losses are included in determining net income for the year.

Derivative financial instruments

The Bank enters into derivative financial instruments to manage the interest rate, foreign exchange rate and equity market exposures arising from on-balance sheet positions. The Bank's policy is not to use derivative financial instruments for trading or speculative purposes. The Bank formally documents all relationships between hedging instruments and hedged items. This process includes linking all derivatives to specific assets and liabilities on the balance sheet.

Derivative financial instruments such as interest rate swaps and forward rate agreements are used as hedges of interest rate risk resulting from the repricing of assets and liabilities. The Bank designates its interest rate hedge agreements as hedges of underlying borrowings. These derivatives are accounted for on an accrual basis with the related interest revenue or expense recognized over the life of the hedged position as an adjustment to interest expense and presented in other assets and in accrued interest on borrowings.

Notes to Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments such as currency swaps, cross-currency interest rate swaps, equity-linked swaps, and forward foreign exchange contracts are used as hedges for foreign currency and equity market risk resulting from foreign currency denominated or equity-linked borrowings. Unrealized foreign exchange and equity translation gains and losses on these derivative financial instruments are respectively accrued in other assets and liabilities on the balance sheet and are recognized in income, offsetting the respective translation gains and losses on the underlying foreign currency or equity-linked borrowings. The forward premium or discount on forward foreign exchange contracts is amortized as an adjustment of interest expense over the term of the forward contract.

Premiums paid or received with respect to derivative financial instruments are deferred and amortized to interest expense over the lives of the derivative contracts.

Employee future benefits

The Bank maintains defined benefit pension plans for eligible employees. Periodic valuations are performed by independent actuaries to determine the present value of the accrued pension benefits using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, compensation escalation, retirement ages of employees and other factors. The discount rate used to determine present value is based on market interest rates for long-term high-quality debt instruments.

The net pension expense or credit is comprised of the actuarially computed cost of pension benefits provided in respect of the current year's service, imputed interest on pension liabilities, expected income on plan assets based on an average of market-related values and the amortization of experience gains or losses, adjustments from plan amendments and transitional balances upon adoption of the current accounting policy. Amortization is charged on a straight-line basis over the expected average remaining service life of the employees covered by the plans.

Amortization of experience gains or losses is recognized in the expense for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligation or 10% of the fair market value of the plan assets, whichever is greater. Amortization corresponds to the excess divided by active employees' expected average remaining service life.

The Bank also provides life insurance, health care and retirement allowance benefits for eligible retirees as well as other employee and retiree benefits which are accrued based on actuarial valuations.

3. CASH AND SHORT-TERM INVESTMENTS

	2003	2002
Bank account balances, net of cheques outstanding	\$ (5,187)	\$ (694)
Short-term bank notes	660,927	468,335
Cash and cash equivalents	655,740	467,641
Securities purchased under resale agreements	74,977	164,800
	\$ 730,717	\$ 632,441

Short-term bank notes have maturities at the original acquisition date of less than 90 days.

The Bank enters into short-term agreements, whereby it purchases and simultaneously commits to resell securities at a specified price on a specified date. These transactions, which are a form of secured investing by the Bank, produce interest income over the term of the investments.

Notes to Financial Statements

4. SECURITIES

	Term to maturity				
	Within	1 to 3		2003	2002
	1 year	years		Total	Total
Canada					
Carrying value	\$	—	\$	—	\$ 25,879
Yield		—		—	6.75%
Fair value	\$	—	\$	—	\$ 25,936
Financial Institutions					
Carrying value	\$	7,677	\$	63,259	\$ 56,776
Yield		3.28%		3.23%	2.84%
Fair value	\$	7,677	\$	63,878	\$ 57,497
Total					
Carrying value	\$	7,677	\$	63,259	\$ 82,655
Yield		3.28%		3.23%	4.09%
Fair value	\$	7,677	\$	63,878	\$ 83,433
Swap Contracts					
Notional amount	\$	7,600	\$	62,600	\$ 78,535
Adjusted yield (1)		3.35%		3.13%	2.18%
Amounts denominated in foreign currencies included in the carrying value of securities					
	US dollars - 2002	\$	45,814		\$ 72,962
	US dollars - 2003	\$	20,720	\$	30,388

(1) After adjusting for the effect of related derivatives (see Note 14).

All securities held as at March 31 were issued by Canadian entities at fixed rates. Yields are based upon carrying values and contractual interest rates adjusted for amortization of premiums and discounts. Term to maturity classifications are based upon the contractual maturity of the security. Fair value is based on market quotes when available and may not be realized on sale. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities. Where appropriate, the Bank has entered into cross-currency interest rate and interest rate swaps to adjust the interest rate and the foreign exchange risks associated with the above securities.

5. LOANS

The following table summarizes the repricing or maturity dates, whichever is earlier, and the effective interest rates of loans outstanding as at March 31. The effective interest rates are computed on a weighted average basis.

	2003		2002	
Performing—floating	\$ 4,777,768	7.45%	\$ 3,854,234	6.43%
Performing—fixed				
Under one year	534,545	8.06%	473,370	8.19%
1 to 2 years	246,150	8.60%	439,889	8.50%
2 to 3 years	253,176	9.12%	211,761	9.16%
3 to 4 years	174,654	9.11%	247,302	9.64%
4 to 5 years	148,687	9.48%	162,552	9.34%
Over 5 years	299,437	8.78%	413,633	9.08%
Performing	6,434,417		5,802,741	
Impaired	280,928		267,958	
Total loans	6,715,345		6,070,699	
Allowance for credit losses				
General	(330,464)		(300,746)	
Specific	(96,245)		(100,440)	
	(426,709)		(401,186)	
Loans, net of allowance for credit losses	\$ 6,288,636		\$ 5,669,513	

The average amount of loans, net of allowance for credit losses, was of \$5,959,328 in 2003 (\$5,334,944 in 2002).

Notes to Financial Statements

5. LOANS (continued)

The concentrations of the total loans outstanding by province and territory as at March 31 are set out in the table below. The largest concentration in one individual or closely related group of clients is less than 1%.

Geographic Distribution	2003		2002	
Newfoundland and Labrador	\$ 251,476	3.8%	\$ 215,141	3.6%
Prince Edward Island	42,965	0.6%	42,261	0.7%
Nova Scotia	149,810	2.2%	128,716	2.1%
New Brunswick	255,802	3.8%	223,168	3.7%
Quebec	2,661,460	39.6%	2,483,772	40.9%
Ontario	2,140,631	31.9%	1,832,667	30.2%
Manitoba	92,715	1.4%	99,684	1.6%
Saskatchewan	107,546	1.6%	102,522	1.7%
Alberta	401,697	6.0%	354,743	5.8%
British Columbia	562,623	8.4%	539,734	8.9%
Yukon	20,399	0.3%	20,964	0.3%
Northwest Territories and Nunavut	28,221	0.4%	27,327	0.5%
Total loans outstanding	\$ 6,715,345	100.0%	\$ 6,070,699	100.0%

6. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the changes in the allowance for credit losses as at March 31:

	2003	2002
Balance at beginning of year	\$ 401,186	\$ 358,154
Write-offs	(72,544)	(49,008)
Interest income due to accretion	(3,671)	(5,100)
Recoveries	3,738	2,140
	328,709	306,186
Provision for credit losses	98,000	95,000
Balance at end of year	\$ 426,709	\$ 401,186

7. VENTURE CAPITAL INVESTMENTS

The Bank maintains a portfolio of venture capital investments which is focussed on companies having promising competitive positions in their respective marketplaces and strong growth potential. The concentrations of venture capital investments are listed below. The largest single investment within these sectors is 3.4% of total venture capital investments.

Industry Sector	2003		2002	
	Carrying value	Fair value	Carrying value	Fair value
Biotechnology/Medical/Health	\$ 77,601	\$ 71,446	\$ 80,692	\$ 87,418
Computer	50,889	53,782	49,504	53,028
Venture Capital Seed Funds	20,718	17,459	25,917	39,676
Venture Capital Funds	15,929	16,281	7,885	10,495
Electronics	63,736	59,039	49,707	69,615
Communications	57,023	50,745	39,257	48,562
Energy	6,200	6,200	6,015	6,015
Industrial	4,400	4,806	3,484	3,890
Consumer-related	2,538	2,538	2,538	2,574
Other	2,911	5,295	6,065	6,200
Venture capital investments	\$ 301,945	\$ 287,591	\$ 271,064	\$ 327,473

(See Note 13 for determination of fair value)

The preceding table includes \$8,030 (\$13,567 in 2002) of temporary investments, with a fair value of \$8,200 (\$14,548 in 2002). The average carrying value of venture capital investments was \$292,415 in 2003 (\$247,882 in 2002).

Notes to Financial Statements

7. VENTURE CAPITAL INVESTMENTS (continued)

Investments are generally held 4 to 7 years. Divestitures are made through listings of investee shares on public markets or the sale of the Bank's shares to other existing shareholders or to third parties. Investment yields vary from year to year due to the amount and timing of dividend and interest income received and divestitures made. Below is a summary of the venture capital portfolio by type of investment.

Carrying value	2003	2002
Common shares	\$ 119,738	\$ 121,441
Preferred shares	151,663	129,879
Debentures	30,544	19,744
Venture capital investments	\$ 301,945	\$ 271,064

The Bank has invested in T²C² Bio, T²C² Info, Western Technology and Eastern Technology seed funds over which it has joint control. Below is a summary of the Bank's recorded proportionate share of the assets, liabilities, revenues, expenses and cash flows of these funds.

	2003	2002
Current assets	\$ 2,331	\$ 3,949
Venture capital investments	17,227	21,581
Other assets	9	13
Current liabilities	10	15
Investment income	1,556	2,311
Write-down on investments	3,233	5,142
Operating and administrative expenses	1,145	1,318
Net loss	\$ (2,822)	\$ (4,149)
Cash flows from (used in):		
Operating activities	\$ (1,023)	\$ (872)
Investing activities	2,565	410
Financing activities	(3,150)	1,748

8. OTHER ASSETS

	2003	2002
Unrealized gains and amounts receivable on derivative financial instruments	\$ 302,565	\$ 153,283
Accrued benefit asset	62,606	51,419
Unamortized debt issue expenses on long-term notes	1,462	794
Other	6,457	7,123
	\$ 373,090	\$ 212,619

Unrealized gains and amounts receivable on derivative financial instruments are receivable from counterparties under derivative contracts and generally correspond to foreign currency and other adjustments in the underlying borrowings. Unrealized losses and amounts payable to counterparties under derivative contracts are included in "Other liabilities" (see Note 10) and in "Accrued interest on borrowings".

9. BORROWINGS

The Bank issues debt instruments in world money and capital markets to fund its loan portfolio. Foreign currency and equity market risk is hedged through the use of derivatives, such that essentially all of the Bank's borrowings are effectively denominated in Canadian dollars and bear interest at Canadian fixed or floating rates. In addition, where appropriate, the Bank enters into interest rate and cross-currency interest rate swap contracts to hedge the related interest rate risks. The table below shows the outstanding notes as at March 31.

		2003		2002	
Maturity date	Effective rate	Principal amount	Carrying value	Principal amount	Carrying value
Short-term notes					
2003					
	USD			\$ 1,235,065	\$ 1,959,494
	CDN			1,488,305	1,484,785
2004	2.66% - 3.33%				
	USD	\$ 800,907	\$ 1,160,611		
	CDN	2,115,249	2,104,757		
Total short-term notes			\$ 3,265,368		\$ 3,444,279

Notes to Financial Statements

9. BORROWINGS (continued)

			2003		2002	
Maturity date	Effective rate*		Principal amount	Carrying value	Principal amount	Carrying value
Long-term notes						
2003		USD	\$ —	\$ —	\$ 13,000	\$ 19,772
		CDN	—	—	276,500	276,500
2004	2.73%-3.03%	USD	12,500	33,211	—	—
	2.60%-6.10%	CDN	347,500	347,500	317,500	317,500
2005	2.79%-5.15%	CDN	181,000	181,000	181,000	181,000
2006	2.58%-5.65%	CDN	241,665	242,466	240,536	235,098
2007	2.80%	EURO	4,587	7,233	4,587	6,361
	2.67%-6.01%	CDN	268,760	275,443	257,094	256,863
2008	2.89%	USD	5,000	7,336	—	—
	2.69%-4.61%	CDN	265,600	265,600	114,600	114,600
2009	2.78%	USD	50,000	73,361	—	—
	2.65%-2.88%	CDN	268,032	272,890	230,832	227,297
2010	2.84%-5.82%	USD	25,000	36,680	25,000	39,828
	2.68%-2.86%	CDN	186,461	195,683	102,665	102,665
2011	2.78%	USD	10,000	14,075	10,000	15,850
	2.61%-2.89%	CDN	213,610	211,190	65,000	65,000
2012		YEN	—	—	500,000	13,276
		CDN	—	—	35,000	35,000
2013	2.83%-2.86%	YEN	2,000,000	24,735	—	—
	2.81%-2.89%	USD	71,000	104,171	—	—
	2.83%	CDN	5,000	5,000	—	—
2014		YEN	—	—	1,600,000	19,212
2015	2.79%-2.89%	YEN	8,600,000	106,359	2,600,000	31,220
2017		YEN	—	—	16,300,000	195,722
2018	2.76%-2.90%	YEN	40,800,000	504,587	—	—
Total long-term notes				\$ 2,908,520		\$ 2,152,764

* The effective rates on long-term notes are after giving effect to swap contracts when applicable. Information as to the repricing dates of the interest rate swap contracts is included in Note 14.

The preceding table includes \$2,493,520 in 2003 and \$1,592,764 in 2002 of long-term notes payable which have been the subject of interest rate, cross-currency interest rate and equity-linked swap contracts and options with other financial institutions. These borrowings fund a portion of the Bank's floating interest rate loan portfolio and bear interest at effective rates that are reset monthly or quarterly. The remaining long-term notes payable bear interest at fixed rates.

The maturity dates for callable and extendable notes are presented based on their first option date.

The Bank has issued a number of structured notes for which interest and/or principal at maturity is linked to fluctuations in equity indices, currency rates, swap rates and other market references. Other notes may be called prior to maturity, or have their maturity extended, upon exercise of call or extension options by the Bank or the noteholders. The type of notes included in the above table are as follows:

	2003	2002
Interest-bearing notes	\$ 455,000	\$ 560,000
Fixed and inverse floating rate notes callable prior to maturity	477,188	43,227
Managed futures	594,767	188,056
Notes linked to equity indices	808,575	731,689
Notes linked to currency rates	177,903	104,890
Notes linked to swap rates	13,604	69,643
Fixed rate notes callable prior to maturity	45,000	188,822
Notes extendible beyond maturity	10,000	118,000
Other structured notes	326,483	148,437
	\$ 2,908,520	\$ 2,152,764

Notes to Financial Statements

9. BORROWINGS (continued)

As at March 31, 2003, the payment requirements and maturities of long-term notes are as follows:

2004	\$ 380,711
2005	181,000
2006	242,466
2007	282,676
2008	272,936
2009 and later	1,548,731
	\$ 2,908,520

10. OTHER LIABILITIES

	2003	2002
Deferred income	\$ 590	\$ 927
Accrued benefit liability	96,905	88,436
Unrealized losses and amounts payable on derivative financial instruments	178,671	36,150
Other	25,582	32,484
	\$ 301,748	\$ 157,997

11. SHARE CAPITAL AND STATUTORY LIMITATIONS

Share Capital

Authorized:

- (a) An unlimited number of preferred shares without par value, non-voting, issuable in series;
- (b) An unlimited number of common shares, having a par value of \$100 (one hundred dollars) each.

Outstanding	2003			2002		
	Number of shares	Amount	Dividend rate	Number of shares	Amount	Dividend rate
Preferred shares						
Class A — Series 1	500,000	\$ 50,000	4.585%	500,000	\$ 50,000	5.592%
— Series 2	500,000	50,000	6.545%	500,000	50,000	6.545%
— Series 3	500,000	50,000	5.515%	500,000	50,000	5.515%
— Series 4	400,000	40,000	3.760%	400,000	40,000	5.548%
— Series 5	400,000	40,000	3.910%	400,000	40,000	6.251%
— Series 6	—	—		650,000	65,000	4.879%
		230,000			295,000	
Common shares	5,584,000	558,400		3,034,000	303,400	
Total Outstanding						
Share Capital		\$ 788,400			\$ 598,400	

Class A Preferred Shares have a fixed, preferential and cumulative dividend and are exchangeable at the option of the holder, with the approval of the Minister of Finance, for fully-paid common shares on the basis of one common share for each Class A Preferred Share. All dividends accumulated or declared and unpaid as at the date of exchange are payable by the Bank on a pro rata basis, as if such dividends had accrued from day-to-day. The dividend rates on Class A Preferred shares are for periods ranging from one to five years and are adjusted at the beginning of the subsequent period to equal the consolidated revenue fund lending rate published by the Minister of Finance, plus a specified premium ranging from 0.230% to 0.375%.

During the year ended March 31, 2003, the holder of Series 6 Preferred Shares Class A opted to convert \$65 million of the preferred shares to 650,000 common shares and the Bank issued 1,900,000 common shares for a cash consideration of \$190 million.

Statutory Limitations

The aggregate of borrowings and contingent liabilities of the Bank in the form of guarantees given by it may not exceed twelve times the shareholder's equity of the Bank.

Moreover, the paid-in capital of the Bank, the contributed surplus and any proceeds that have been prescribed as equity must not at any time exceed \$1.5 billion.

Notes to Financial Statements

12. OPERATING AND ADMINISTRATIVE EXPENSES

	2003			2002		
	Loans	Consulting Group	Venture capital	Loans	Consulting Group	Venture capital
Salaries and staff benefits	\$ 95,923	\$ 17,465	\$ 6,193	\$ 89,437	\$ 18,479	\$ 4,835
Premises and equipment	25,042	649	1,179	25,341	1,305	1,017
Other expenses	55,484	3,249	4,237	50,409	4,153	4,870
	\$ 176,449	\$ 21,363	\$ 11,609	\$ 165,187	\$ 23,937	\$ 10,722

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments held or issued by the Bank using the valuation methods and assumptions referred to below. The estimated fair value amounts represent approximate amounts at which the instruments could be exchanged between willing parties. However, many of the financial instruments lack an available trading market. Therefore, in these cases fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used. As such, the derived fair value estimates should not be interpreted as realizable values in an immediate settlement of the instruments.

The carrying values are not adjusted to reflect increases or decreases in fair values resulting from fluctuations in interest rates, as generally it is the Bank's intention to realize the value of these financial instruments over time by holding them to maturity.

	2003			2002		
	Carrying value	Fair value	Fair value over (under) carrying value	Carrying value	Fair value	Fair value over (under) carrying value
Balance Sheet						
Assets						
Cash and short-term investments	\$ 730,717	\$ 730,717	\$ —	\$ 632,441	\$ 632,441	\$ —
Securities (Note 4)	63,259	63,878	619	82,655	83,433	778
Loans, net of allowance for credit losses	6,288,636	6,307,924	19,288	5,669,513	5,680,904	11,391
Venture capital investments	301,945	287,591	(14,354)	271,064	327,473	56,409
Other assets	144,498	144,498	—	60,927	60,927	—
	\$ 7,529,055	\$ 7,534,608	\$ 5,553	\$ 6,716,600	\$ 6,785,178	\$ 68,578
Liabilities						
Accounts payable and accrued liabilities	\$ 56,555	\$ 56,555	\$ —	\$ 52,618	\$ 52,618	\$ —
Accrued interest on borrowings	59,457	59,457	—	79,068	79,068	—
Short-term notes	3,265,368	3,265,368	—	3,444,279	3,444,279	—
Long-term notes	2,908,520	2,924,414	15,894	2,152,764	2,155,999	3,235
Other liabilities	5,689	5,689	—	11,927	11,927	—
	\$ 6,295,589	\$ 6,311,483	\$ 15,894	\$ 5,740,656	\$ 5,743,891	\$ 3,235
			\$ (10,341)			\$ 65,343
Derivative financial instruments (Note 14)						
	\$ (43,923)	\$ (60,327)	\$ (16,404)	\$ 13,148	\$ (19,977)	\$ (33,125)
Total			\$ (26,745)			\$ 32,218

Notes to Financial Statements

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair values are based on a range of valuation methods and assumptions which are as follows:

Financial instruments valued at carrying value—The estimated fair value of the following assets and liabilities is assumed to approximate carrying value as the items are short-term in nature:

- Cash and short-term investments
- Other assets
- Accounts payable and accrued liabilities
- Accrued interest on borrowings
- Short-term notes

Securities—The fair value of securities is provided in Note 4 to the financial statements.

Loans—For performing variable rate loans, estimated fair value is assumed to equal carrying value. For performing fixed rate loans, estimated fair value is determined using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at March 31 to expected maturity or repricing. For impaired loans, fair value is equal to carrying value in accordance with the valuation methods described in Note 2 under *Allowance for credit losses*.

Venture capital investments—For venture capital investments made during the current year, estimated fair value is assumed to equal the carrying value. For investments in publicly traded companies, fair value is the quoted share price at March 31. The fair value of other investments is estimated using established earnings multiples.

Long-term notes—The fair value of long-term notes is based on quoted market prices for similar issues, or current rates offered to the Bank for notes of the same remaining maturity.

Derivative financial instruments—The fair value of derivative financial instruments is provided in Note 14 to the financial statements.

14. DERIVATIVE FINANCIAL INSTRUMENTS

As described in Note 2, the Bank uses derivative financial instruments to manage the financial risk of certain on-balance sheet positions. These instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity investment or index and depending on the circumstances, may include the following:

Swaps

Swaps involve the exchange of cash flow obligations on a specific notional amount, for a predetermined period. *Interest rate swaps* involve exchange of fixed and floating interest payments. *Currency swaps* involve exchange of currencies at specific prices and dates. *Cross-currency interest rate swaps* involve the exchange of both interest and notional amounts in two different currencies. For *equity-linked swaps*, one of the payments exchanged represents the variation in the equity index over time, and the other is based on agreed fixed or floating rates.

Forwards and Futures

Forwards and futures are contractual agreements to either buy or sell currencies or financial instruments at specified prices and dates in the future.

Options

Options are agreements in which the writer (or the seller) of the option grants the buyer the right, but not the obligation, to buy or sell a specific amount of a currency, commodity or financial instrument at a price agreed upon when the options are arranged. The writer receives a premium for selling this instrument.

Notes to Financial Statements

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table provides the fair value of the Bank's derivatives portfolio as at March 31 as presented by unrealized gains or losses.

	2003			2002		
	Positive	Negative	Net amount	Positive	Negative	Net amount
Derivative financial instruments						
Interest rate swap contracts	\$ 5,997	\$ 3,391	\$ 2,606	\$ 4,355	\$ 8,521	\$ (4,166)
Equity-linked swap contracts	176,431	143,431	33,000	68,670	65,554	3,116
Forward rate agreements	—	—	—	85	1,597	(1,512)
Cross-currency interest rate swap contracts	7,074	39,286	(32,212)	8,159	24,867	(16,708)
Currency forward contracts	—	63,721	(63,721)	4,871	5,578	(707)
Total fair value	\$ 189,502	\$ 249,829	\$ (60,327)	\$ 86,140	\$ 106,117	\$ (19,977)
Less impact of master netting agreements	66,225	66,225	—	60,410	60,410	—
Total	\$ 123,277	\$ 183,604	\$ (60,327)	\$ 25,730	\$ 45,707	\$ (19,977)

The fair value of derivatives is determined using various methodologies including quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, and net present value analysis or other pricing methodologies as appropriate.

Credit risk

The notional amounts of financial instruments held by the Bank are not indicative of the credit or market risk exposure associated with the contracts. The risk of loss is related only to the possibility that a counterparty to a transaction does not perform as agreed. In the event of default by a counterparty, the risk to the Bank in these transactions would be limited to the prevailing currency and/or interest rate differentials as represented by the positive fair values of transactions that are in an unrealized gain position. The Bank limits its exposure to this type of risk by dealing only with financial institutions having credit ratings in accordance with the Department of Finance guidelines, and believes it does not have any significant concentrations in any individual financial institution. The Bank continually monitors its position and the credit ratings of its counterparties and seeks to limit its credit exposure by entering into master netting agreements with counterparties. The credit risk associated with contracts in a favourable position is eliminated by a master netting agreement only to the extent that contracts in an unfavourable position with the same counterparty will not be settled before the favourable contracts. The Bank's overall exposure to credit risk on derivative instruments can change substantially within a short period since it is affected by each transaction subject to the arrangement.

Counterparty Credit Risk Exposure	Counterparty Ratings			Total
	AAA	AA- to AA+	A to A+	
Gross positive replacement cost	\$ —	\$ 91,888	\$ 97,614	\$ 189,502
Impact of master netting agreements	—	(16,597)	(49,628)	(66,225)
Replacement cost				
(after master netting agreements)	\$ —	\$ 75,291	\$ 47,986	\$ 123,277
Replacement cost				
(after master netting agreements)—2002	\$ —	\$ 21,152	\$ 4,578	\$ 25,730
Number of counterparties				
March 31, 2003	0	8	7	
March 31, 2002	1	9	4	

Notes to Financial Statements

14. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The following table summarizes the notional amount by terms to maturity or repricing dates and replacement costs on derivative financial instruments:

	Term to maturity or repricing								2003		2002	
	Within 1 year		1 to 3 years		3 to 5 years		Over 5 years		Notional amount	Replacement cost	Notional amount	Replacement cost
Interest rate contracts												
\$CDN payable—												
fixed	\$ 54,897	5.57	\$ 25,000	5.54	\$ 22,195	6.01	\$ —	—	\$ 102,092	\$ —	\$ 150,792	\$ —
\$CDN receivable—												
fixed	24,963	3.62	40,000	4.43	—	—	45,000	5.38	109,963	3,236	291,159	2,612
Basis swaps	150,000	n.a.	—	—	—	—	—	—	150,000	—	150,000	156
Equity-linked swap												
contracts	127,203	n.a.	253,755	n.a.	598,564	n.a.	1,118,892	n.a.	2,098,414	176,431	1,171,987	68,670
Other contracts	—	n.a.	—	—	18,812	n.a.	—	n.a.	18,812	2,761	57,459	1,587
	357,063		318,755		639,571		1,163,892		2,479,281	182,428	1,821,397	73,025
Forward rate												
agreements	—	—	—	—	—	—	—	—	—	—	1,400,000	85
Cross-currency												
interest rate												
swap contracts	—	n.a.	30,000	n.a.	13,915	n.a.	979,799	n.a.	1,023,714	7,074	596,168	8,159
Total interest rate												
contracts	357,063	—	348,755	—	653,486	—	2,143,691	—	3,502,995	189,502	3,817,565	81,269
Foreign exchange												
contracts												
Currency forward												
contracts	1,268,540	n.a.	—	—	—	—	—	—	1,268,540	—	2,009,089	4,871
Total foreign												
exchange												
contracts	1,268,540	—	—	—	—	—	—	—	1,268,540	—	2,009,089	4,871
Total	\$ 1,625,603	—	\$ 348,755	—	\$ 653,486	—	\$ 2,143,691	—	\$ 4,771,535	\$ 189,502	\$ 5,826,654	\$ 86,140
Less impact												
of master												
netting												
agreements	—	—	—	—	—	—	—	—	—	66,225	—	60,410
Total	\$ 1,625,603	—	\$ 348,755	—	\$ 653,486	—	\$ 2,143,691	—	\$ 4,771,535	\$ 123,277	\$ 5,826,654	\$ 25,730
n.a. — not applicable or weighted rates are not significant												

n.a. — not applicable or weighted rates are not significant.

The notional amount represents the amount at which a rate or price is applied in order to calculate the exchange of cash flows.

Replacement cost represents the cost of replacing, at current market rates, all contracts in an unrealized gain position.

The rates represent the weighted average interest rates that the Bank has contracted to pay or to receive up to maturity or repricing. The floating side for almost all of the Canadian dollar swap contracts is based on one- or three-month Canadian Bankers' Acceptance. All amounts in U.S. dollars are converted into the Canadian dollar equivalent.

15. INTEREST RATE SENSITIVITY

Interest rate risk occurs when a liability is settled or re-priced at a time in the future that does not offset the asset that it is funding. These differences in duration cover both on- and off-balance sheet financial instruments. The Bank uses borrowing strategies and derivative instruments to continuously manage this risk with the objective of minimizing such differences.

Notes to Financial Statements

16. CONTINGENT LIABILITIES AND COMMITMENTS

As at March 31, 2003:

- (a) various legal proceedings arising from the normal course of business are pending against the Bank. Management believes that the aggregate liability resulting from these proceedings will not be material.
- (b) the undisbursed amounts on loans authorized total \$874,594. These loan commitments are for an average period of three months (\$74,147 in fixed, \$800,447 in floating). The effective interest rates on these loan commitments vary from 5.25% to 18.0%. The undisbursed amounts on authorized venture capital investments total \$56,495.
- (c) the future minimum lease commitments under operating leases related to the rental of Bank premises are as follows:

2004	\$ 16,832
2005	16,926
2006	16,150
2007	15,091
2008	13,008
2009 - 2020	81,310
	\$159,317

17. EMPLOYEE FUTURE BENEFITS

The Bank maintains defined benefit pension plans (the "Pension Plans") for eligible employees, which provide post-retirement benefits based on number of years of service and average final pay. The Bank also provides life insurance and health care benefits for eligible retirees as well as other employee and retiree benefits (the "Other Plans").

The following tables present, in aggregate, information on a calendar year basis concerning the employee future benefit plans:

	Registered pension plan		Supplemental pension plans		Other plans	
	2003	2002	2003	2002	2003	2002
Change in accrued benefit obligation						
Balance at beginning of year	\$ 360,939	\$ 348,124	\$ 29,861	\$ 26,057	\$ 74,595	\$ 68,271
Current service cost	13,054	12,501	1,002	909	3,112	2,653
Interest cost on benefit obligation	24,465	24,662	2,055	1,871	5,211	4,785
Benefits paid	(17,686)	(15,780)	(388)	(390)	(2,887)	(2,015)
Actuarial (gain) loss	(580)	(8,568)	(1,668)	1,414	1,536	901
Balance at end of year	380,192	360,939	30,862	29,861	81,567	74,595
Change in fair value of plan assets						
Balance at beginning of year	\$ 452,534	\$ 474,038	\$ 3,827	\$ 3,943	\$ —	\$ —
Employee contributions ¹	—	167	125	—	—	—
Employer contributions	—	—	—	131	633	398
Actual return on plan assets during the year	(12,539)	(5,891)	43	143	—	—
Benefits paid	(17,686)	(15,780)	(388)	(390)	(633)	(398)
Balance at end of year	422,309	452,534	3,607	3,827	—	—
Surplus (deficit) at end of year	\$ 42,117	\$ 91,595	\$ (27,255)	\$ (26,034)	\$ (81,567)	\$ (74,595)
Employer contributions after December 31	—	—	36	34	153	92
Unamortized transitional obligation (asset) ²	(73,927)	(87,368)	516	249	1,972	2,169
Unamortized net actuarial loss	94,416	47,192	5,105	7,282	4,135	2,367
Accrued benefit asset (liability) at end of year³	\$ 62,606	\$ 51,419	\$ (21,598)	\$ (18,469)	\$ (75,307)	\$ (69,967)

¹ Employees of the Bank are currently not required to contribute to the Pension Plans for current service. The Bank has the ultimate responsibility for ensuring that pension obligations are adequately funded over time. In specific circumstances, employees are allowed to contribute amounts to the Pension Plans for the recognition of years of service that are not already recognized.

² Transitional balances as at April 1, 2000 and past service costs from amendments to the plans are amortized on a straight-line basis over the active employees' expected average remaining service life. The active employees' expected average remaining service life under the Pension Plans ranges from 6.8 years to 8.5 years. The expected average remaining service life of the active employees covered by the Other Plans is 13 years for all but one of the plans, in which case it is 8.5 years.

³ Net amount recognized in balance sheet as "Other liabilities" or "Other assets", as appropriate.

Notes to Financial Statements

17. EMPLOYEE FUTURE BENEFITS (continued)

Pension and other post-retirement expense is included in Salaries and Staff benefits and is as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2003	2002	2003	2002	2003	2002
Plan expense (credit)						
Current service cost	\$ 13,054	\$ 12,501	\$ 1,002	\$ 909	\$ 3,112	\$ 2,653
Interest cost on benefit obligation	24,465	24,662	2,055	1,871	5,211	4,785
Expected return on plan assets	(35,495)	(37,258)	(148)	(190)	—	—
Amortization of transitional obligation (asset)	(13,441)	(13,441)	(267)	(267)	197	315
Amortization of net actuarial loss	231	—	621	497	55	2
Curtailment loss	—	—	—	—	—	765
Expense (credit) for the year ended March 31	\$ (11,186)	\$ (13,536)	\$ 3,263	\$ 2,820	\$ 8,575	\$ 8,520

The unamortized net actuarial loss in the Bank's registered pension plan is \$94,416 which exceeds 10% of the fair value of plan assets by \$52,185 at December 31, 2002. This excess will be amortized to pension expense over the expected average remaining service life of active employees, commencing April 1, 2003. Accordingly, the Bank's pension expense is expected to increase by approximately \$6 million in its fiscal year ended March 31, 2004, due to the increase in loss amortization.

The amount of loss amortization subsequent to March 31, 2004 will be principally affected by the difference between future investment results and the expected return on plan assets.

Included in the above accrued benefit obligation and value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Supplemental pension plans		Other plans	
	2003	2002	2003	2002
Fair value of plan assets	\$ 3,607	\$ 3,827	\$ —	\$ —
Accrued benefit obligation	30,862	29,861	61,567	74,595

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations (weighted averages) are as follows:

	Registered pension plan		Supplemental pension plans		Other plans	
	2003	2002	2003	2002	2003	2002
Significant actuarial assumptions						
Discount rate at beginning of year	6.70%	7.00%	6.70%	7.00%	6.70%	7.00%
Discount rate at end of year	6.75%	6.70%	6.75%	6.70%	6.75%	6.70%
Expected long-term rate of return on plan assets ¹	8.00%	8.00%	4.00%	5.00%	—	—

¹ The expected long-term return on plan assets is calculated using assets valued at fair market value.

The average rate of compensation increase is expected to be inflation which is assumed to be 3.25% (in 2002, 3.25%) plus a 0.5% productivity gain plus an adjustment for merit and promotion.

For measurement purposes, medical costs were assumed to increase with inflation, plus a further increase of 2.5% in 2004 graded down by 0.5% each year to 1.0% in 2007 and subsequent years (in 2002 an increase of 3.0% for 2003 graded down by 0.5% each year to 1.0% for 2007 and subsequent years).

Notes to Financial Statements

16. RELATED PARTY TRANSACTIONS

The Bank is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Bank entered into transactions with these entities in the normal course of business.

19. SEGMENTED RESULTS OF OPERATIONS

The operations of the Bank are grouped into two principal business segments comprising Loans and Venture Capital activities. Disclosure of each segment's revenues, expenses and net income is set out in the Statement of Income and the average assets of the Loan and Venture Capital portfolios are disclosed in Notes 5 and 7 respectively.

20. COMPARATIVE FINANCIAL DATA

Certain comparative figures have been reclassified to conform with the presentation adopted in 2003.

**Canada
Council
for the
Arts**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Canada Council for the Arts and all the information in this annual report are the responsibility of Management and have been approved by the Council.

The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

The Canada Council for the Arts maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the organization's assets are appropriately accounted for and adequately safeguarded.

The Council is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Council carries out this responsibility principally through its Audit and Finance Committee.

The Audit and Finance Committee is appointed by the Council and its members are Council members. The Committee meets periodically with Management, as well as the external auditor, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditor's report. The Committee reports its findings to Council for consideration when approving the financial statements.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Canada Council for the Arts, and for issuing her report thereon.

John Hobday
Director

Mark Watters
Secretary-Treasurer



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

AUDITOR'S REPORT

To the Canada Council for the Arts
and the Minister of Canadian Heritage

I have audited the balance sheet of the Canada Council for the Arts as at March 31, 2003 and the statements of operations, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 23, 2003

FINANCIAL STATEMENTS

Canada Council for the Arts
BALANCE SHEET AS AT MARCH 31

	2003	2002
	(in thousands of dollars)	
ASSETS		
Current Assets		
Cash and short-term deposits (Note 3)	\$ 9,212	\$13,545
Accrued investment income	5,218	1,369
Accounts receivable	2,557	5,943
Deferred charges	535	718
	<u>17,523</u>	<u>21,585</u>
Investments (Note 4)	268,821	278,597
Works of art and musical instruments (Note 5)	19,368	19,216
Other capital assets (Note 6)	<u>2,683</u>	<u>3,557</u>
Total Assets	\$ 308,395	\$ 322,955
LIABILITIES		
Current Liabilities		
Grants payable	\$ 23,845	\$ 34,242
Accounts payable and accrued liabilities	<u>1,739</u>	<u>5,239</u>
	<u>25,584</u>	<u>29,481</u>
Employee severance benefits (Note 7)	1,247	1,139
Deferred revenues	1,152	1,760
Deferred parliamentary appropriations	2,625	2,511
Deferred contributions (Note 8)	<u>1,279</u>	<u>1,531</u>
Total Liabilities	31,887	36,422
PRIVATE ENDOWMENTS (NOTE 9)	73,486	76,702
EQUITY		
Endowment		
Original contribution	50,000	50,000
Appropriated surplus	<u>116,070</u>	<u>123,070</u>
	<u>166,070</u>	<u>173,070</u>
Surplus		
Invested in works of art and musical instruments	19,368	19,216
Unrestricted	<u>17,584</u>	<u>17,545</u>
	<u>36,952</u>	<u>36,761</u>
Total Equity	203,022	209,831
Total Liabilities, Private Endowments and Equity	\$ 308,395	\$ 322,955

On behalf of the Council,



Jean-Louis Roux, Chair



François Colbert, Vice-Chair

(See accompanying notes to the financial statements)

Canada Council for the Arts
STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31

	2003	2002
	(in thousands of dollars)	
REVENUE		
Net investment income (loss) (Note 10)	\$ 5,044	\$ (114)
Net Art Bank revenue (Note 1)	208	272
Other	<u>1,538</u>	<u>1,599</u>
Total Revenue	<u>7,862</u>	<u>1,757</u>
EXPENSES		
Programs		
Grants (Schedule 1)	142,261	137,206
Administration (Schedule 2)	8,278	7,477
Services	<u>3,358</u>	<u>2,388</u>
	<u>153,797</u>	<u>147,071</u>
Canadian Commission for UNESCO (Note 1)	1943	1,839
General administration (Schedule 2)	<u>12,110</u>	<u>11,500</u>
Total Expenses	<u>168,072</u>	<u>160,472</u>
Net cost of operations before parliamentary appropriation	160,210	158,715
Parliamentary appropriation	<u>153,707</u>	<u>151,776</u>
Deficit for the year	\$ <u>(6,503)</u>	\$ <u>(6,939)</u>

(See accompanying notes to the financial statements)

Canada Council for the Arts

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED MARCH 31

	2003	2002
	(in thousands of dollars)	
ENDOWMENT		
Original contribution	\$ 50,000	\$ 50,000
Appropriated surplus		
Balance at beginning of the year	123,070	136,070
Appropriated to unrestricted surplus during the year	(7,000)	(13,000)
Balance at end of the year	<u>116,070</u>	<u>123,070</u>
Balance of Endowment at end of the year	\$ 166,070	\$ 173,070
SURPLUS		
Invested in works of art and musical instruments		
Balance at beginning of year	\$ 19,216	\$ 19,023
Net additions during the year	(306)	132
Appropriated from unrestricted surplus during the year	<u>458</u>	<u>61</u>
Balance at end of the year	<u>19,368</u>	<u>19,216</u>
Unrestricted		
Balance at beginning of the year	17,545	11,545
Deficit for the year	(6,503)	(6,939)
Appropriated from endowment during the year	7,000	13,000
Appropriated to surplus invested in works of art and musical instruments during the year	<u>(458)</u>	<u>(61)</u>
Balance at end of the year	<u>17,584</u>	<u>17,545</u>
Balance of surplus at end of the year	\$ 36,952	\$ 36,761

(See accompanying notes to the financial statements)

Canada Council for the Arts
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31

	2008	2007
	(in thousands of dollars)	
OPERATING ACTIVITIES		
Deficit for the year	\$ (8,304)	\$ (8,939)
Items not affecting cash:		
Amortization – other capital assets	1,400	1,470
Amortization – other capital assets – Art Bank	85	115
	<u>(4,802)</u>	<u>(5,354)</u>
Change in non-cash operating assets and liabilities	<u>(4,816)</u>	<u>4,276</u>
Cash used in operating activities	<u>(9,708)</u>	<u>(1,078)</u>
FINANCING ACTIVITIES		
Endowment contributions received	<u>–</u>	<u>96</u>
INVESTING ACTIVITIES		
Deferred contributions transferred from private endowments	(3,216)	(4,104)
Net decrease in investments	9,776	14,287
Acquisition of other capital assets and works of art and musical instruments	(1,195)	(934)
Proceeds from sale of other capital assets	<u>–</u>	<u>18</u>
Cash provided by investing activities	<u>5,365</u>	<u>9,207</u>
(Decrease) increase in cash and short-term deposits	<u>(4,343)</u>	<u>8,225</u>
Cash and short-term deposits at beginning of the year	<u>13,555</u>	<u>5,330</u>
Cash and short-term deposits at end of the year	\$ <u>9,212</u>	\$ <u>13,555</u>

(See accompanying notes to the financial statements)

CANADA COUNCIL FOR THE ARTS
Notes to Financial Statements
March 31, 2003

1. Authority, Operations and Objectives

The Canada Council for the Arts, established by the *Canada Council Act* in 1957 and subsequently amended in 2001 by Bill C-40 to the *Canada Council for the Arts Act*, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the *Income Tax Act*. In accordance with section 85 of the *Financial Administration Act*, the Canada Council is exempt from Part X of this Act. The Canada Council for the Arts is a national organization whose objectives are to foster and promote the study, enjoyment and production of works in the arts. The Council has been assigned functions and duties for the Canadian Commission for UNESCO.

The Council achieves its objectives through a grants program to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Program administration expenses are detailed in Schedule 2 and represent the direct costs of program delivery. Program services expenses mainly represent the costs associated with the adjudication of Council's grants. General administration costs represent the costs related to corporate management, communications, human resources, informatics, finance, accommodation and amortization. These costs are also detailed in Schedule 2.

The Canadian Commission for UNESCO advises the Government of Canada on its relations with the United Nations Educational, Scientific and Cultural Organization (UNESCO). The Commission also fosters co-operation between Canadian organizations in civil society and UNESCO.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the Council are:

(a) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Council to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year. Employee-related liabilities and the estimated useful lives of capital assets are the most significant items where estimates are used. Actual results could differ from those estimated.

(b) Investments and investment income

Investments are recorded at cost and are written down to market value when the loss in value is considered to be other than a temporary decline.

Investment income represents realized gains and losses on disposal of investments as well as dividends and interest earned on pooled funds. Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition.

(c) Other capital assets and works of art and historical improvements

Equipment and leasedhold improvements are recorded at cost and depreciated over their estimated useful lives using the straight line method as follows:

Office equipment	5 years
Leasedhold improvements	Term of the lease

Painted and works of art and historical improvements are kept direct at cost. Donated works of art and historical improvements are recorded at their appraised value. No amortization is recorded on these assets.

(d) Employee future benefits

i) Severance benefits

Employees are entitled to severance benefits as provided for under conditions of employment and the collective agreement. The cost of these benefits is accrued as the employees render the services necessary to earn them. Management determined the accrued benefit obligation using a method based upon assumptions and estimates. These benefits represent the only employment obligation of the Council that entails settlement by future payment.

ii) Pension benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Canada Pension Plan by the plan collects the full cost of the employee contributions. The amount is currently based on a estimate of the employee's required contribution, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligation of the Council and are charged to operations on a current basis. The Council currently is not required to make contributions with respect to additional contributions of the Public Service Superannuation Act.

(e) Endowment - appropriated surplus

In years when net investment income exceeds the operational requirements of the Council, an amount up to the excess amount is appropriated to the appropriated surplus of the endowment account from the balance of the unrestricted surplus. In years when net investment income does not meet the operational requirements of the Council, an amount up to the shortfall is appropriated from the appropriated surplus of the endowment account to the unrestricted surplus.

(f) Parliamentary appropriation

Parliamentary appropriation is recognized as revenue in the year for which it is approved by Parliament. Parliamentary appropriations intended for future years received from Parliament before the end of the year are recorded as deferred parliamentary appropriations.

(g) Contributions

The Canada Council for the Arts follows the deferred contribution method of accounting for contributions.

Annual contributions are recognized as revenue in the year received or in the year the funds are committed to the Canada Council for the Arts if the amount can be reasonably estimated and collection is reasonably assured.

Unrestricted net interest and dividends, unrestricted net realized capital gains or losses, net rental, rental fees and other revenues are recorded as revenue in the year they are earned. Externally restricted investment income is recorded as deferred contributions and is recognized as revenue in the year in which the related expenses are incurred.

Endowment contributions are recognized as direct increases to provide endowments.

Contributions received in a form other than cash are recorded at their fair value at the date they are received by the Canada Council for the Arts.

(b) Grants

Grants are recorded as an expense in the year for which they are approved by the Council. Cancelled grants and refunds of grants approved in previous years are shown as revenue.

(c) Derivative financial instruments

The Council has chosen to manage a portion of its foreign-exchange risk and does so through the use of derivative financial instruments. The Council's investment policies and goals limit the use of derivatives to currency forwards and futures contracts whose use is restricted to reducing risk as part of a hedging strategy. The Council does not use derivatives for speculative purposes.

A derivative must be designated and effective to be accounted for as a hedge. Effectiveness is achieved if the cash flows or fair values of the derivative substantially offset the cash flows of the hedged position and the timing is similar. Premiums paid or received with respect to derivatives are recognized based on the original hedge designation date.

Gains or losses related to derivatives that are hedges are deferred and recognized in the same period as the corresponding hedged positions. If derivative financial instruments are closed before planned delivery, gains or losses are recorded as deferred revenue or deferred charges and recognized on the planned delivery date.

(d) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the balance sheet date, or, when hedged, at rates prescribed by foreign currency contracts. Revenues and expenses items are translated at average exchange rates during the year. All exchange gains and losses are included in determining net income for the year.

3. Cash and Short-Term Deposits

The Canada Council for the Arts invests temporary surplus cash in a short-term pooled fund managed by Lancaster Investment Counsel. All instruments held in the pooled fund are rated R(low) or A(low) or better by a recognized bond rating agency. Except for federal and federally guaranteed instruments, no more than 10% of the short-term portfolio is invested with one issuer.

The net book value of short-term deposits as at March 31, 2003 and March 31, 2002 approximated the market value.

4. Investments

	2011		2010	
	Cost	Marked to market value	Cost	Marked to market value
<u>Canada Council and Other Endowments</u>				
Pooled funds	\$ 200,328	\$ 204,092	\$ 203,728	\$ 228,897
Mortgages	—	—	—	—
	<u>200,328</u>	<u>204,092</u>	<u>203,728</u>	<u>228,897</u>
<u>Other Endowments</u>				
Pooled funds	62,595	61,701	68,804	65,691
Total investments	<u>\$ 262,923</u>	<u>\$ 265,793</u>	<u>\$ 272,532</u>	<u>\$ 294,588</u>

The long term objectives of the Canada Council and Other Endowments and the Killam Endowment are to generate long term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital. In order to achieve these objectives, the Council invests its units of the following pooled funds: 40.8% in the global Templeton Master Trust – Series 2, 23.4% in the Barrays US Equity Index B Fund, 15.9% in the Barrays S&P500 First Adjusted Equity Index B Fund, 10.1% in the Barrays (Inverse Bond Fund) and 10% in the Barrays TSX 300 Equity Index Fund.

The market value is based on the quoted market prices as at March 31, 2011.

5. Works of Art and Musical Instruments

The Canada Council for the Arts Art Bank is the largest number of contemporary Canadian works of art in Canada. It includes about 17,700 paintings, sculptures, drawings, photographs and prints by over 2,900 artists. The Canada Council for the Arts Art Bank rents the art works to interested parties and currently has about 6,600 works on rental to federal government departments and agencies, associations, hospitals, schools, municipalities and private corporations.

The Canada Council for the Arts created the Musical Instrument Bank in 1985 and it currently owns a fine cello bow and five quality musical instruments. In addition, the Council manages five instruments on loan from an anonymous donor until August 2013.

6. Other Capital Assets

	2011		2010	
	Cost	Accumulated amortization	Net book value	Net book value
<u>(in thousands of dollars)</u>				
Office equipment	\$ 5,808	\$ 4,854	\$ 954	\$ 2,012
Leasehold improvements	6,126	4,972	1,154	1,545
	<u>\$ 11,934</u>	<u>\$ 9,826</u>	<u>\$ 2,108</u>	<u>\$ 3,557</u>

7. Employer Future Benefits

i) Sickness Benefits

The Council provides sickness benefits to its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan is as follows:

	2001	2002
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	\$ 1,139	\$ 976
Expense for the year	127	183
Benefits paid during the year	(19)	(20)
Accrued benefit obligation, end of year	\$ <u>1,247</u>	\$ <u>1,139</u>

ii) Pension benefits

During the year, the Public Service Superannuation Plan required the Council to contribute to the Plan at a rate of 2.14 times the employee's contribution (2002 - 2.14 times). Contributions to the Public Service Superannuation Plan during the year were \$1,267,795 (2002 - \$1,216,000).

8. Deferred Contributions

Deferred contributions represent unspent externally restricted net income on endowments and contributions received by way of bequest and donations that have been restricted for specific purposes. In addition, deferred contributions include other sources of revenue that have been restricted for specific purposes. The funds of the endowments are included with the Canada Council for the Arts investment portfolio and a proportionate share for each endowment is calculated based upon the market value of the investment portfolio at the time the endowment was received. The additions include net investment income or loss (interest, dividends and net capital gains or losses) calculated annually $\times$ the proportionate share of each endowment plus any other sources of revenue. Use of funds is equal to the grants and administration expenses incurred in order to meet the specific purpose for each endowment.

Deferred Contributions				
(in thousands of dollars)				
Revenue or expansion of year	Additions	Use of funds	Transferred from private endowments	Balance at end of year
\$ 1,541	\$ 585	\$ 4,051	\$ 1,216	\$ 1,279

9. Private Endowments

Private endowments consist of restricted donations received by the Council. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by the donors. Also, the Council may transfer a portion of the income earned on these investments over the operating needs of the Council have been met.

Changes in private endowments are as follows:

	2003	2002
	(\$ thousands of dollars)	
Balance, beginning of year	\$ 76,811	\$ 80,760
Add donations received during the year: Bertrand Diamond Scholarship Fund	—	65
Deduct:		
Endowments transferred to deferred contributions:	(3,266)	(5,641)
Other	—	(463)
	<u>(3,266)</u>	<u>(4,104)</u>
Balance at end of year	\$ 73,545	\$ 76,721

10. Net Investment Income (Loss)

	2003	2002
	(\$ thousands of dollars)	
Net losses on disposal of investments	\$ (4,067)	\$ (10,521)
Net losses on foreign currency	(617)	(2,157)
Dividends:	4,443	4,116
Interest	4,115	3,825
Transferred from deferred contributions:	3,505	5,066
Investment portfolio management costs	<u>(1,057)</u>	<u>(1,433)</u>
	\$ 7,369	\$ 1,046

11. Net Art Bank Revenue and Canadian Commission for UNESCO

	2003	2002
	(\$ thousands of dollars)	
Rental revenue	\$ 1,391	\$ 1,560
Other income	322	397
Administration	<u>(15,109)</u>	<u>(14,029)</u>
Amortization	<u>(1,050)</u>	<u>(1,153)</u>
Net Art Bank revenue:	\$ 214	\$ 275
Canadian Commission for UNESCO	2003	2002
	(\$ thousands of dollars)	
Program	\$ 962	\$ 1,000
Program — contributions received	(269)	(341)
Administration	<u>1,280</u>	<u>1,179</u>
	\$ 1,973	\$ 1,838

Program expenses mainly represent the costs associated with the Commission's activities at international meetings related to education, science and culture. Administration expenses represent the direct costs of delivering the Commission's programs.

12. Commitments

(a) Payments of grants extending into future years are subject to the provision of funds by Parliament. Future year grants approved prior to March 31, 2003 are payable as follows:

(in thousands of dollars)

2004	\$ 68,626
2005	13,792

(b) The Council is party to long-term leases with respect to rental accommodation. The net minimum annual rental is as follows:

(in thousands of dollars)

2004	\$ 3,307
2005	3,105
2006	3,105
2007	3,105
2008	3,105
2009 - 2014	17,737

For the year ended March 31, 2003, the annual rentals have been reduced by \$3,429,870 (2002 - \$1,619,000) as a result of sub-leases with Public Works and Government Services Canada and The EnCon Group. The Council's current lease expires in October 2003. Council has exercised its option to lease space at its current location for a further ten years. At March 31, 2003, the terms and conditions of the new lease agreement had not been finalized.

13. Related Party Transactions

The Council is related to all Government of Canada departments, agencies and Crown corporations. The Council incurred expenses for the work and services provided by other government departments and agencies. These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties.

14. Comparative Figures

Certain of the 2002 figures have been reclassified to conform to the presentation adopted in 2003.

**Canada
Deposit
Insurance
Corporation**

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

June 11, 2003

The accompanying financial statements of the Canada Deposit Insurance Corporation and the information related to the financial statements in this *Annual Report* are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts, the most significant ones being the provision for insurance losses, the provision for guarantees, the future income tax asset and the allowance for loss on claims receivable, that are necessarily based on management's best estimates and judgement.

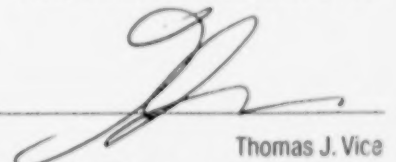
The financial statements have been approved by the Board of Directors. Financial information presented elsewhere in the *Annual Report* is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are duly authorized, assets are safeguarded and proper records are maintained in accordance with the *Financial Administration Act* and regulations as well as the *Canada Deposit Insurance Corporation Act* and by-laws of the Corporation. The system of internal control is augmented by internal audit, which conducts periodic reviews of different areas of the Corporation's operations. In addition, the internal and external auditors have free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the financial statements to the Board of Directors.

These financial statements have been audited by the Corporation's auditor, the Auditor General of Canada, and her report is included herein.



Jean Pierre Sabourin
President and Chief Executive Officer



Thomas J. Vice
Vice-President, Finance and Administration
and Chief Financial Officer



AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of Canada Deposit Insurance Corporation as at March 31, 2003 and the statements of income and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Deposit Insurance Corporation Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 1, 2003

Canada Deposit Insurance Corporation
Balance Sheet as at March 31

(in thousands of dollars)

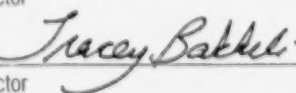
	Note	2003	2002
ASSETS			
Cash and short-term investments	3	\$ 353,271	\$ 325,671
Investments	4	712,799	659,195
Accounts receivable		5,348	5,171
		<u>1,071,418</u>	<u>990,037</u>
Capital assets		1,248	901
Net claims receivable	5, 7	13,881	14,291
Future income tax asset	9	15,777	7,040
		<u>\$1,102,324</u>	<u>\$1,012,269</u>
LIABILITIES			
Accounts payable	14	\$7,905	\$6,810
Provision for guarantees	6, 7	5,300	19,000
Provision for insurance losses	7	550,000	500,000
		<u>563,205</u>	<u>525,810</u>
SURPLUS		539,119	486,459
		<u>\$1,102,324</u>	<u>\$1,012,269</u>
Contingent Liabilities and Commitments	11, 12		

(See accompanying notes)

Approved by the Board:

Director

Director

Canada Deposit Insurance Corporation
Statement of Income and Surplus
for the year ended March 31

(in thousands of dollars)

	Note	2003	2002
REVENUE			
Premiums	10	\$ 75,679	\$154,646
Interest on cash and investments		32,378	36,104
Other revenue		309	128
		<u>108,366</u>	<u>190,878</u>
EXPENSES			
Operating expenses	14	25,662	22,775
Adjustment to allowance and provisions for loss	7	46,221	86,376
Recovery of amounts previously written off		(7,440)	(25,871)
		<u>64,443</u>	<u>83,280</u>
Net income before increase/(reduction) in future income tax asset		43,923	107,598
Increase/(reduction) in future income tax asset	9	8,737	(76,108)
		<u>52,660</u>	<u>31,490</u>
Net income		486,459	454,969
Surplus, beginning of year		<u>486,459</u>	<u>454,969</u>
Surplus, end of year		<u>\$539,119</u>	<u>\$486,459</u>

(See accompanying notes)

Canada Deposit Insurance Corporation
Statement of Income and Surplus
for the year ended March 31

(in thousands of dollars)

	Note	2003	2002
REVENUE			
Premiums	10	\$ 75,673	\$154,646
Interest on cash and investments		32,378	36,104
Other revenue		389	128
		<u>108,399</u>	<u>190,878</u>
EXPENSES			
Operating expenses	14	75,662	22,775
Adjustment to allowance and provisions for loss	7	46,221	86,376
Recovery of amounts previously written off		(7,440)	(25,871)
		<u>64,143</u>	<u>83,280</u>
Net income before increase (reduction) in future income tax asset		43,923	107,598
Increase (reduction) in future income tax asset	9	(8,737)	(76,108)
Net income		<u>52,660</u>	<u>31,490</u>
Surplus, beginning of year		486,459	454,969
Surplus, end of year		<u>\$539,119</u>	<u>\$486,459</u>

(See accompanying notes)

Canada Deposit Insurance Corporation
Statement of Cash Flows
for the year ended March 31

(in thousands of dollars)

	2003	2002
OPERATING ACTIVITIES		
Premium revenue received	\$ 75,379	\$154,829
Claims recovered	344	17,556
Loans recovered	—	21,920
Interest revenue received	35,113	37,881
Recovery of amounts previously written off	7,440	21,112
Other amounts received/(paid)	341	(718)
Payment of guarantees	(9,855)	(10,376)
Payments to suppliers and employees	(24,822)	(21,739)
Cash flows from operating activities	83,940	220,465
INVESTING ACTIVITIES		
Purchase of securities and term deposits	(1,135,655)	(1,125,339)
Redemption of securities and term deposits	1,079,315	1,026,973
Cash flows used in investing activities	(56,340)	(98,366)
CASH AND SHORT-TERM INVESTMENTS		
Increase during the year	27,600	122,099
Balance, beginning of year	325,671	203,572
Balance, end of year	\$353,271	\$325,671

(See accompanying notes)

Canada Deposit Insurance Corporation

Notes to Financial Statements March 31, 2003

1. Authority and Objective

The Corporation was established in 1967 by the *Canada Deposit Insurance Corporation Act* (the CDIC Act). It is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act* and is funded by premiums assessed against its member institutions.

The objects of the Corporation are to provide insurance against the loss of part or all of deposits in member institutions, to be instrumental in the promotion of standards of sound business and financial practices for member institutions, and to promote and otherwise contribute to the stability of the financial system in Canada. These objects are to be pursued for the benefit of depositors of member institutions and in such manner as will minimize the exposure of the Corporation to loss.

The Corporation has the power to do all things necessary or incidental to the furtherance of its objects, including acquiring assets from, and providing guarantees or loans to member institutions and others. Among other things, it may make or cause to be made inspections of member institutions, make standards of sound business and financial practices, and act as liquidator, receiver or inspector of a member institution or a subsidiary thereof.

2. Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements do not reflect the assets, liabilities or operations of failed member institutions in which the Corporation has intervened.

Use of Estimates. Financial statements prepared in accordance with Canadian generally accepted accounting principles necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The more significant areas requiring the use of estimates are: (i) the provision for insurance losses; (ii) the provision for guarantees; (iii) the future income tax asset; and (iv) the allowance for loss on claims receivable.

The Corporation reviews these estimates annually. While the estimates are based on the most reliable data available, actual results, in the near term, could differ significantly from those estimates depending upon certain events and uncertainties including:

- ∴ the timing and extent of losses the Corporation incurs as a result of future failures of member institutions;
- ∴ the extent to which the Corporation will be called upon to honour guarantees provided to member institutions and others;
- ∴ the Corporation's ability to generate sufficient taxable income to benefit from tax loss carry-forwards; and
- ∴ The ability of the Corporation to recover its claims receivable based on prevailing economic trends and expectations as to future developments either by maximizing net recoveries from the sale of assets held by liquidators and agents, or through

successful lawsuits as appropriate against relevant parties of failed member institutions.

The risk of deviation from the Corporation's estimates varies in proportion to the length of the estimation period and the potential volatility of the underlying assumptions. In the event that actual results vary from the current estimates, the Corporation can recommend that the annual premium charged to member institutions be increased or decreased, depending on the situation. The Corporation also has authority to borrow funds from the capital markets or from the Consolidated Revenue Fund, subject to ministerial approval. The Corporation can borrow up to \$6 billion or such greater amount as may be authorized by Parliament under an appropriation act.

Cash and Short-Term Investments and Investments.

Short-term investments and investments, consisting of marketable securities and term deposits, are carried at cost as they are intended to be held to maturity.

Claims Receivable. Claims against member institutions arise from the subrogation of the rights and interests of depositors to the extent of the amount of the payment made by the Corporation to insured depositors. In addition, the Corporation asserts claims in respect of loans made to member institutions in liquidation.

Allowance and Provisions for Loss and Guarantees. In its financial statements, the Corporation records the following allowance and provisions for loss and guarantees:

Allowance for Loss on Claims Receivable —

The allowance for loss on claims receivable reflects the Corporation's best estimate of losses in respect of claims receivable. The allowance is established by assessing the anticipated results of the asset disposition strategies and forecasted payments to creditors based on information received from the

liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

Claims receivable are written off against the allowance, in full or in part, when there is no reasonable expectation of realization. In certain situations, the Corporation will receive payments on loans and claims receivable that have been previously written off. In such situations, any payments received are recorded first to recover amounts previously written off before recognizing additional amounts as other revenue.

Provision for Guarantees — In order to facilitate the resolution of financial difficulties of member institutions, the Corporation may provide guarantees. The provision for guarantees is determined by estimating the future cash payments required under these guarantees.

Provision for Insurance Losses — The provision for insurance losses represents the Corporation's best estimate of the losses it is likely to incur as a result of insuring deposits of member institutions.

The provision for insurance losses is estimated by assessing the aggregate risk of the Corporation's members based on: (i) the level of insured deposits; (ii) the expectation of default derived from probability statistics and the Corporation's specific knowledge of its members; and (iii) an expected loss given default. The Corporation calculates its losses as a result of member institution failures on a present value basis. The loss given default is expressed as a percentage and reflects the cumulative un-weighted average of losses sustained since the CDIC Act was amended in 1987 to require that CDIC pursue its objects in a manner so as to minimize its exposure to loss.

Changes in the allowance and provisions for loss that result from annual estimations for financial reporting purposes are recognized as an adjustment to the allowance and provisions for loss in the period in which the changes occur.

Premium Revenue. Premium revenue is calculated on the amount of insured deposits held by member institutions as at April 30 of each year. Premiums are recorded annually based on the Return of Insured Deposits submitted by member institutions, which is due July 15 of each year. Premiums are payable in two equal instalments on July 15 and December 15.

Pension Plan. All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. The Corporation's contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

Employee Future Benefits. Upon termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The liability for these benefits is recorded in the accounts as the benefits accrue to employees.

3. Cash and Short-Term Investments

The short-term investments have a term to maturity of less than 90 days. All of these investments are highly liquid fixed rate contracts.

	March 31, 2003			March 31, 2002		
	(in thousands of dollars)					
	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity
Short-term investments	\$352,823	3.06%	36	\$324,719	3.49%	49
Cash	448			952		
Total	\$353,271			\$325,671		

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	March 31, 2003			March 31, 2002		
	(in thousands of dollars)					
	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity
Short term investments	\$352,823	3.06%	36	\$324,719	3.49%	49
Cash	448			952		
Total	\$353,271			\$325,671		

4. Investments

Investments have a term to maturity of 90 days or greater. All investments are highly liquid fixed rate contracts.

	March 31, 2003			March 31, 2002		
	(in thousands of dollars)					
	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity	Amount	Weighted Average Effective Yield	Weighted Average Days to Maturity
Treasury bills	\$501,881	3.22%	246	\$275,988	3.36%	224
Bonds	183,118	3.49%	330	205,727	3.43%	671
Bankers' acceptances	11,177	3.16%	181	86,903	3.02%	190
Commercial paper	4,846	3.21%	203	—	—	—
Bearer deposit notes	4,845	3.18%	182	82,873	3.09%	207
Subtotal	705,867			651,491		
Accrued interest	6,932			7,704		
Total	\$712,799	3.29%	267	\$659,195	3.30%	360

5. Net Claims Receivable

	March 31, 2003	March 31, 2002
	(in thousands of dollars)	
Claims receivable	\$17,881	\$20,291
Allowance for loss	(4,000)	(6,000)
Net claims receivable	\$13,881	\$14,291

6. Provision for Guarantees

In order to facilitate the resolution of member institutions in financial difficulty, the Corporation has in the past provided deficiency coverage guarantees. These guarantees provide for payment by the Corporation of a portion of the principal and income losses incurred on eligible assets acquired by third parties. The guarantees provide coverage for losses incurred to December 31, 2002, although under the terms of the guarantees, claims for losses incurred during the coverage period can be filed with the Corporation subsequent to that date.

The provision for guarantees as at March 31, 2003, is \$5.3 million (2002: \$19 million) against a nominal amount of \$34 million (2002: \$201 million).

The nominal amount represents the maximum exposure for the Corporation with respect to the guarantees provided as at March 31, 2003. This amount is not necessarily representative of the amount the Corporation expects to pay a third party to meet its obligations under these guarantees.

7. Allowance and Provisions for Loss

The following table is a continuity schedule of the allowance for loss on claims receivable, the provision

for guarantees and the provision for insurance losses as at March 31, 2003, with corresponding totals as at March 31, 2002.

	March 31, 2003				March 31, 2002
	(in thousands of dollars)				
	Claims Receivable	Guarantees	Insurance Losses	Total	Total
Beginning of period	\$6,000	\$19,000	\$500,000	\$525,000	\$449,000
Payments	—	(9,855)	—	(9,855)	(10,376)
Write-offs	(2,066)	—	—	(2,066)	—
Adjustment to allowance and provisions for loss	66	(3,845)	50,000	46,221	86,376
End of period	\$4,000	\$ 5,300	\$550,000	\$559,300	\$525,000

The allowance and provisions for loss are subject to measurement uncertainty. As such, actual losses may differ significantly from these estimates.

8. Financial Instruments

Credit Risk. The Corporation is subject to credit risk from its holdings of short-term investments and investments. The Corporation minimizes its credit risk by adhering to the *Minister of Finance Financial Risk Management Guidelines for Crown Corporations*, by investing in high quality financial instruments and by limiting the amount invested in any one counterparty.

Claims receivable relate to failed member institutions. Realization of claims receivable is largely dependent on the credit quality or value of assets held within the estates of failed member institutions.

Fair Value. Other than cash and short-term investments, and investments, no active or liquid market exists in which the Corporation's financial assets and liabilities could be traded. Where no market exists for financial instruments, fair value estimates are based on judgments regarding current and future economic conditions and events, the risk characteristics of the instruments, and other factors. The estimates of fair value discussed below are made as at March 31, 2003, and involve

uncertainties and matters of significant judgment. Changes in assumptions could materially affect the estimates.

The book value of cash and short-term investments, investments other than bonds, accounts receivable and accounts payable approximate fair value because of their short term to maturity.

The Corporation's investments in bonds consist solely of Government of Canada obligations. As at March 31, 2003, the fair value of these investments, based on observable market prices, is \$206 million, which compares to the book value of \$203 million.

The book value of claims receivable approximates fair value as it represents the Corporation's best estimate of the amounts to be realized based on asset disposition strategies and forecasted repayments on account of claims receivable. The Corporation bases its estimates on information received from the liquidators of failed member institutions and from other parties acting on behalf of the Corporation.

The book value of the provisions for guarantees and for insurance losses approximates fair value as it represents the Corporation's best estimate of future payments to be made under the guarantees, and losses on future claims.

9. Income Taxes

The Corporation is subject to federal income tax and has losses that can be carried forward to reduce future years' earnings for tax purposes.

Such losses total \$93 million and expire as follows:

Year	Amount (in millions of dollars)
2004	\$65
2005	28
Total	\$93

Some \$11.7 million of undepreciated capital cost (2002: \$11 million) and \$33 million (2002: \$8.4 million) of the total \$93 million losses carried forward (2002: \$181 million) have been applied in calculating the future income tax asset of \$15.8 million (2002: \$7 million).

During the year the future income tax asset increased by \$8.7 million, primarily as a result of an increase in the estimated future years' taxable income due to revised economic assumptions underlying the estimate of interest revenue on cash and investments.

10. Insured Deposits and Premiums

Deposits insured by the Corporation, on the basis of returns received from member institutions as described in Note 2, Premium Revenue, as at April 30, 2002 and 2001, were as follows:

	2002	2001
	(in billions of dollars)	
Federal institutions	\$345	\$337
Provincial institutions	2	2
Total	\$347	\$339

Under CDIC's *Differential Premiums By-law*, members are classified into four different categories based on a system that scores them according to a number of criteria or factors. The premium rates in effect for 2002 are 1/48 of 1 per cent of insured deposits for members in Category 1, 1/24 of 1 per cent for Category 2, 1/12 of 1 per cent for Category 3 and 1/6 of 1 per cent for members in Category 4. By way of comparison, the premium rates in effect for 2001 were 1/24 of 1 per cent of insured deposits for members in Category 1, 1/12 of 1 per cent for Category 2, 1/6 of 1 per cent for Category 3 and 1/3 of 1 per cent for members in Category 4.

11. Contingent Liabilities

The Corporation is involved in a number of judicial actions that have arisen in the normal course of operations. In the opinion of the Corporation, none of these, individually or in the aggregate, would result in liabilities that would have a significant adverse effect on the financial position of the Corporation. However, the final outcome with respect to claims and legal proceedings pending at March 31, 2003, cannot be predicted with certainty. Accordingly, the impact of any matter will be reflected in the period in which the matter becomes determinable.

12. Operating Leases

The aggregate minimum rent payments (exclusive of other occupancy costs) for the Corporation's operating leases in effect as at March 31, 2003, are as follows:

Year	Amount (in thousands of dollars)
2004	\$ 983
2005	983
2006	1,024
2007	1,074
2008-2012	4,262
Total	\$8,326

13. Pension Plan

The contributions to the Public Service Superannuation Plan during the year were as follows:

	2003	2002
	(in thousands of dollars)	
Employer	\$1,983	\$1,641
Employee	\$ 535	\$ 440

14. Restructuring Charges

During the year the Corporation completed a restructuring to streamline its overall workflow and processes, as well as to reduce operating costs. As a result, included in the Corporation's operating expenses for the year ended March 31, 2003, are restructuring costs of \$2.6 million relating to employee departures. The costs not paid as at March 31, 2003 have been accrued in accounts payable and it is expected that substantially all of these accrued costs will be paid in the Corporation's fiscal year ending March 31, 2004.

15. Comparative Figures

Certain of the 2002 figures have been reclassified to conform to the presentation adopted for 2003.

The book value of the provisions for guarantees and for insurance losses approximates fair value as it represents the Corporation's best estimate of future payments to be made under the guarantees, and losses on future claims.

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15. Comparative Figures

Certain of the 2002 figures have been reclassified to conform to the presentation adopted for 2003.

**Canada
Development
Investment
Corporation**

THE CORPORATION'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

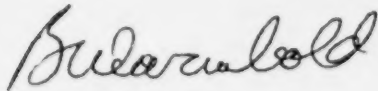
The accompanying consolidated financial statements of Canada Development Investment Corporation are the responsibility of the Corporation and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. The Corporation has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with that in the financial statements.

CDIC maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial records are reliable, form a proper basis for the preparation of financial statements and that CDIC's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibilities for the financial statements in this report principally through its Audit Committee. The Audit Committee reviews CDIC's annual consolidated financial statements and reports its findings to the Board for their consideration and approval. The Audit Committee also meets with the shareholder's auditors to discuss auditing matters and financial reporting issues. Due to its size, and as permitted by Order in Council, CDIC is exempt from the requirement to carry out internal audits.

These consolidated financial statements have been audited by the shareholder's auditors, the Auditor General of Canada and KPMG LLP, whose report is presented separately.



Benita M. Warmbold
Director
Canada Development Investment Corporation

March 7, 2003



AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA



KPMG LLP
Chartered Accountants

AUDITORS' REPORT

To the Minister of Finance

We have audited the consolidated balance sheet of Canada Development Investment Corporation as at December 31, 2002 and the consolidated statements of loss and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation and its wholly-owned subsidiaries.

Alain Boucher, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
February 11, 2003

Chartered Accountants

Ottawa, Canada
February 11, 2003

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Balance Sheet

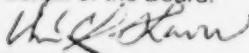
December 31, 2002, with comparative figures for 2001

(In thousands)

	2002	2001
Assets		
Current assets:		
Cash and short-term investments	\$ 13,534	\$ 13,141
Cash on deposit in the Consolidated Revenue Fund (note 4)	63,000	82,000
Cash restricted as to use (note 6(f))	-	1,550
Receivable from Canada Hibernia Holding Corporation (note 5)	94	109
Receivables	40	56
	76,668	96,856
Investment in Canada Hibernia Holding Corporation (note 5)	-	-
	\$ 76,668	\$ 96,856
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 6(d))	\$ 1,617	\$ 1,420
Waste disposal obligation (note 6(a))	7,597	7,155
Current portion of retiree benefit obligations (note 7)	681	841
Note payable to Atomic Energy of Canada Limited (note 6(f))	-	1,550
	9,895	10,966
Retiree benefit obligations (note 7)	1,604	1,651
Shareholder's equity:		
Share capital:		
Authorized - unlimited number of common shares		
Issued and fully paid - 101 common shares	1	1
Contributed surplus	743,184	743,184
Accumulated deficit	(678,016)	(658,946)
	65,169	84,239
Contingencies (note 6)		
	\$ 76,668	\$ 96,856

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:


 _____ Director

 _____ Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Loss and Accumulated Deficit

Year ended December 31, 2002, with comparative figures for 2001
(In thousands)

	2002	2001
Corporate operations:		
Interest earned on cash and short-term investments	\$ 340	\$ 703
Corporate and divestiture expenses	(1,378)	(1,002)
Corporate loss, net	(1,038)	(299)
Site restoration costs (note 6(d))	(1,025)	(913)
Waste disposal costs (note 6(a))	(844)	(526)
Litigation settlement costs (note 6(b))	(16,163)	—
Net loss	(19,070)	(1,738)
Accumulated deficit, beginning of year	(658,946)	(657,208)
Accumulated deficit, end of year	\$ (678,016)	\$ (658,946)

The accompanying notes are an integral part of these consolidated financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2002, with comparative figures for 2001
(In thousands)

	2002	2001
Cash provided by (used in):		
Operating activities:		
Interest and other income received	\$ 365	\$ 871
Cash used for corporate and divestiture expenses	(1,724)	(1,022)
Cash used for site restoration costs	(683)	(884)
Cash used for waste disposal costs	(402)	(357)
Cash used to settle outstanding claims	(16,163)	(450)
Cash used to pay holdback	(1,550)	-
	(20,157)	(1,842)
Investing activities:		
Transfer from cash restricted as to use	1,550	450
Financing activities:		
Dividend	-	(5,000)
Decrease in cash	(18,607)	(6,392)
Cash, beginning of year	95,141	101,533
Cash, end of year	\$ 76,534	\$ 95,141

Cash is defined as cash and short-term investments and cash on deposit in the Consolidated Revenue Fund. The Corporation considers cash to be highly liquid investments with original maturities of three months or less.

The accompanying notes are an integral part of these consolidated financial statements.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Consolidated Financial Statements

Year ended December 31, 2002

(All dollar amounts are stated in thousands)

1. The Corporation:

Canada Development Investment Corporation ("the Corporation" or "CDIC") was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly-owned by Her Majesty in Right of Canada. The Corporation is subject to the *Financial Administration Act* and is an agent of Her Majesty.

In 1998, legislation was enacted which would subject the Corporation to the Large Corporations Tax ("LCT") provisions of the *Income Tax Act* of Canada. The Minister of Finance has expressed the intention to recommend the deletion of the Corporation from the list of prescribed taxable Crown corporations included in the *Act* effective December 31, 1994, the date upon which the Corporation's mandate was amended to proceed with the orderly wind-down of the operations of the Corporation. As a result, the Corporation will cease to be subject to income and capital taxes and therefore has not accrued any further liability commencing January 1, 1995. The Corporation has no significant liability for the LCT for any prior period.

2. Activities of the Corporation:

CDIC's mandate is to wind down its operations by divesting of its remaining assets in an orderly fashion and to ready the Corporation for eventual wind up.

The Board of Directors manages the Corporation with the assistance of consultants. In 1998, legislative authority was received by CDIC to dispose of its remaining assets and liabilities and for the government to assume certain obligations. This legislation also gives the Minister of Finance the authority to wind-up the Corporation.

The Corporation's remaining significant assets are its investment in Canada Hibernia Holding Corporation ("CHHC") and the funds on deposit in the Consolidated Revenue Fund ("CRF").

The Corporation also manages contingencies discussed in note 6.

The Board of Directors of the Corporation is continuing to develop approaches to the divestiture of the Corporation's remaining assets and the orderly wind down of its remaining obligations.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Consolidated Financial Statements, page 2

Year ended December 31, 2002

(All dollar amounts are stated in thousands)

3. Significant accounting policies:

(a) Basis of consolidation:

The financial statements of Canada Eldor Inc. ("CEI"), a wholly-owned subsidiary, have been consolidated with those of the Corporation.

(b) Investment:

The Corporation's investment in CHHC, a wholly-owned entity, which was acquired with the intention that it be disposed of or privatized in the foreseeable future is considered to be a temporary investment and is carried at the lower of cost and net realizable value.

The audited financial statements of CHHC are attached.

(c) Short-term investments:

Short-term investments are valued at cost which approximates fair value due to the short period to maturity.

(d) Divestiture costs and recoveries:

Divestiture costs are expensed when incurred and recoveries are recognized when reasonable assurance as to their collectibility exists. Divestiture costs are included in corporate and divestiture expenses.

(e) Retiree benefits:

The cost of the retiree future benefits earned by retirees is determined as the actuarial present value of all future projected benefits based on an assumed benefit cost factor. The benefits are projected each year by an inflation rate factor, and benefits are assumed to be paid every year after retirement as long as the member or dependent lives. The valuation is based upon a market-related rate and other actuarial assumptions which represent management's best estimates. The benefit obligations are not pre-funded.

The excess of the net actuarial gain (loss) over 10% of the benefits obligation is amortized over the average remaining life expectancy of the former employees.

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Consolidated Financial Statements, page 3

Year ended December 31, 2002

(All dollar amounts are stated in thousands)

4. Cash on deposit in the Consolidated Revenue Fund:

CEI has \$63,000 (2001 - \$82,000) on deposit in a non-interest bearing special purpose account in the Consolidated Revenue Fund of the Government of Canada.

5. Investment in Canada Hibernia Holding Corporation:

The Corporation's investment in CHHC has a cost of one dollar.

On March 19, 1993 CHHC acquired for no cost an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. CHHC's sole purpose is the holding, management, funding and ultimately assisting in the disposal of the 8.5% interest in the Hibernia Development Project. Pursuant to a Memorandum of Understanding ("MOU") dated June 8, 1993 between the Government of Canada ("Government"), the Corporation and CHHC, the Government appropriated and paid directly to CHHC the funds necessary for CHHC to honour its obligations to fund the project costs of the Hibernia Development Project. Production from Hibernia commenced in late 1997 and, in 1998, CHHC achieved commercial production. It is anticipated that CHHC will continue to generate sufficient cash flow to fund its operations and fulfill its continuing obligations without further government appropriations.

CHHC uses the full cost method of accounting where the net carrying cost of CHHC's capital assets is limited to an estimated recoverable amount being the aggregate of future net revenues from proved reserves less future capital costs, costs of undeveloped properties, future general and administrative costs, future site restoration and abandonment costs and income taxes. No adjustments have been made to the carrying value of CHHC's capital assets as a result of this calculation.

Appropriations received directly from the Government by CHHC to fund the costs of the Hibernia Development Project were credited to contributed surplus of CHHC and are not reflected in the cost of CDIC's investment in CHHC. During 2002, \$127,966 (2001 - \$127,000) was returned to the Government as a return of appropriations and reflected as a reduction of contributed surplus in CHHC's financial statements. As at December 31, 2002, all appropriations received from the Government have been returned.

CHHC funds its own administrative costs and reimburses CDIC for any costs paid on behalf of CHHC.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Consolidated Financial Statements, page 4

Year ended December 31, 2002

(All dollar amounts are stated in thousands)

6. Contingencies:

- (a) Under the terms of the purchase and sale agreement between CEI and Cameco Corporation ("Cameco"), CEI and Cameco agreed on a formula for sharing any future joint costs, excluding normal operating costs, related to certain specified existing wastes accumulated by CEI to October 5, 1988, the date of transfer of CEI's operations and assets to Cameco. Cameco assumed liability for the first \$2,000 of joint costs. The next \$98,000 in joint costs will be shared 23/98ths by Cameco, 75/98ths by CEI. CEI assumed liability for joint costs in excess of \$100,000.

Alternatives for the economic disposal for existing wastes continue to be pursued by Cameco. The federal government is also pursuing opportunities for the long-term management of the low level radioactive waste. The majority of the joint costs under the indemnity provisions of the agreement relate to existing waste material located in two sites which are closed and have not accepted further wastes since October 5, 1988. The ultimate magnitude of the joint costs is largely dependent on the outcome of the Government's determination and agreement with the affected local communities of where and what type of facility will be constructed to dispose of the waste, remediation standards that will be set by the Canadian Nuclear Safety Commission and the technologies that may be available to meet these standards at the time they are determined.

CEI accrues for these costs on an annual basis, based on reliable estimates provided by Cameco. Cameco's estimate of joint costs to December 31, 2002 is \$15,512 (2001 - \$14,482) of which CEI's share is \$10,341 (2001 - \$9,522). CEI's liability for the estimated joint costs as at December 31, 2002 is \$7,597 (2001 - \$7,155). It is likely that CEI will incur further liability for joint costs in the future; however, the ultimate magnitude of this liability is not reasonably estimable at this time.

On September 30, 2002, a non-binding letter of intent ("LOI") was entered into by the Government of Canada, Cameco, and CEI to set out the framework for a binding legal agreement that provides the Government of Canada an option to purchase from Cameco certain waste management sites and facilities including the ownership and all the rights and liabilities arising from or related to any wastes on the lands. The LOI also stipulates that any remaining portion of Cameco's joint cost obligation pursuant to the purchase and sale agreement will be paid to CEI in five equal annual payments, starting on the date of transfer of ownership of the sites and facilities. The LOI provides for the execution of a legally binding agreement on or before March 31, 2003.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Consolidated Financial Statements, page 5

Year ended December 31, 2002

(All dollar amounts are stated in thousands)

6. Contingencies (continued):

- (b) CEI and Cameco are co-defendants in a lawsuit brought on behalf of certain members of the Eldorado Pension Plan. In June 2002, the parties agreed to settle the lawsuit and CEI assumed responsibility for \$16,163 of the total settlement. The funds are being held in an escrow account and will be released upon approval of the terms of settlement by the court. The final terms of settlement, including the plan of distribution of the funds, have not yet been agreed.
- (c) CEI is co-defendant with the Province of Ontario, the Attorney General of Canada, the Canadian Nuclear Safety Commission and BOC Canada Limited in a proposed class action lawsuit brought in January 2000 by certain residents of the municipality formerly known as Delorno in the County of Hastings, Ontario. The lawsuit is based on the alleged contamination of certain properties. CEI has filed a notice of intent to defend. The outcome and impact, if any, of this lawsuit to CEI is currently not determinable.
- (d) Under the terms of the agreement between CEI and Cameco, CEI agreed to reimburse Cameco for costs related to the decommissioning of a former mine site. CEI accrues for these costs on an annual basis based on reliable estimates provided by Cameco. The amount accrued as at December 31, 2002 is \$1,167 (2001 - \$826) and is included in total accounts payable and accrued liabilities. The ultimate magnitude of this liability is not reasonably estimable at this time.
- (e) In January 2003, a lawsuit was served by the Colorado School of Mines naming the Corporation and CEI as two of the defendants. The lawsuit alleges environmental contamination caused by the defendants and seeks to recover past and future costs to clean-up the contaminated site. CEI has appointed counsel to represent them in this matter. The outcome of this lawsuit is currently not determinable.
- (f) In May 1998, the Corporation sold its investment in Theratronics to MDS Inc. As part of the purchase and sale agreement, the Corporation indemnified the purchaser for certain representations contained in the agreement of purchase and sale to the maximum of \$2,000. An amount of \$2,000 was held back to satisfy indemnity claims relating to the sale and was included in the financial statements as "Cash restricted as to use". The indemnity period expired in November 1999. Outstanding claims were settled during 2001 for \$450 and the balance of the holdback was paid out to Atomic Energy of Canada Limited in January 2002.
- (g) In December 2001, a lawsuit was filed against Multidata Systems International Inc, Theratronics, CDIC, and MDS Inc. The lawsuit alleges that the plaintiffs were overexposed to radiation during treatments received at a clinic in Panama. A motion to dismiss the claim against CDIC for lack of jurisdiction has been filed. The ultimate magnitude of this liability, if any, is not reasonably estimable at this time.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Consolidated Financial Statements, page 6

Year ended December 31, 2002

(All dollar amounts are stated in thousands)

7. Retiree benefit obligations:

Under the terms of the agreement of purchase and sale between CEI and Cameco, CEI is obligated to fund certain post retirement benefits to employees who retired prior to October 1988. The accrued post retirement benefit obligation, representing the actuarial present value of the benefits which are expected to be paid to the retired employees is \$4,043 (2001 - \$2,254) This benefit plan is not pre-funded, resulting in a plan deficit equal to the accrued benefit obligation. The accrued benefit liability recognized in the balance sheet at December 31, 2002 respecting this benefit plan is \$2,285 (2001 - \$2,492).

The significant actuarial assumptions adopted in measuring CEI's accrued benefit obligations include a discount rate of 6.5% (2001 - 6.8%). The scale of increase in benefits was assumed to be 11.0% (2001 - 4.0%) for dental benefits, and 11.0% (2001 - 6.0%) for medical benefits.

During the year, benefit and related administration costs paid were \$547 (2001 - \$218) and the benefit expense recognized was \$340 (2001 - \$189).



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AUDITORS' REPORT

To the Shareholder of
Canada Hibernia Holding Corporation

We have audited the balance sheets of Canada Hibernia Holding Corporation as at December 31, 2002 and 2001 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporation Act and the articles and by-laws of the Corporation.

Chartered Accountants

Calgary, Canada
February 11, 2003

CANADA HIBERNIA HOLDING CORPORATION

Balance Sheets

December 31, 2002 and 2001
(Thousands of Dollars)

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,830	\$ 31,058
Accounts receivable	47,273	945
Taxes receivable	—	2,513
Inventory	—	123
Prepaid expenses	62	858
	79,165	35,497
Capital assets (note 3)	314,107	378,254
Cash held in escrow (note 4)	2,550	2,550
Cash held for future abandonment (note 5)	12,000	—
	<u>\$ 407,822</u>	<u>\$ 416,301</u>

Liabilities and Shareholder's Equity

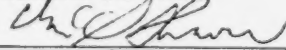
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,636	\$ 7,700
Taxes payable	9,405	—
Current lease obligation (note 6)	2,920	2,636
Due to shareholder	94	109
	29,055	10,445
Long-term lease obligation (note 6)	29,896	33,080
Future income taxes (note 8)	49,000	50,700
Provision for abandonment	20,025	14,087
	127,976	108,312
Shareholder's equity:		
Capital stock:		
Authorized unlimited number of common shares		
Issued and fully paid - 1 common share	—	—
Contributed surplus	—	127,966
Retained earnings	279,846	180,023
	279,846	307,989

Commitment and contingencies (note 9)

	<u>\$ 407,822</u>	<u>\$ 416,301</u>
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See accompanying notes to financial statements.

On behalf of the Board:




Director

Director

CANADA HIBERNIA HOLDING CORPORATION

Statements of Operations and Retained Earnings

Years ended December 31, 2002 and 2001
(Thousands of Dollars)

	2002	2001
Revenue:		
Crude oil sales, net of royalties and marketing fees	\$ 236,193	\$ 161,354
Interest	1,079	1,580
	<u>237,272</u>	<u>162,934</u>
Expenses:		
Depletion and depreciation	56,838	36,223
Operating	21,925	16,901
Interest on capital lease	3,781	3,959
Provision for abandonment	5,938	4,247
Administrative	1,037	925
Foreign exchange	105	1,779
	<u>89,624</u>	<u>64,034</u>
Income before income and other taxes	147,648	98,900
Income and other taxes (note 8)	47,825	31,197
Net income for the year	99,823	67,703
Retained earnings, beginning of year	180,023	112,320
Retained earnings, end of year	<u>\$ 279,846</u>	<u>\$ 180,023</u>

See accompanying notes to financial statements.

CANADA HIBERNIA HOLDING CORPORATION

Statements of Cash Flows

Years ended December 31, 2002 and 2001
(Thousands of Dollars)

	2002	2001
Cash provided by (used in):		
Operations:		
Net income for the year	\$ 99,823	\$ 67,703
Items not involving cash:		
Future income tax expense	(1,700)	25,198
Depreciation and depletion	56,838	36,223
Provision for abandonment	5,938	4,247
Unrealized foreign exchange	(302)	2,147
Funds from operations	160,597	135,518
Change in non-cash working capital (note 10)	8,188	20,961
	168,785	156,479
Financing:		
Return of parliamentary appropriations	(127,966)	(127,000)
Lease obligation payments	(2,598)	(2,343)
	(130,564)	(129,343)
Investments:		
Capital assets (note 3)	(25,449)	(20,455)
Cash held for future abandonment (note 5)	(12,000)	—
	(37,449)	(20,455)
Increase in cash and cash equivalents	772	6,681
Cash and cash equivalents, beginning of year	31,058	24,377
Cash and cash equivalents, end of year	\$ 31,830	\$ 31,058

See accompanying notes to financial statements.

CANADA HIBERNIA HOLDING CORPORATION

Notes to Financial Statements

Years ended December 31, 2002 and 2001

(All Dollar Amounts are stated in Thousands of Dollars)

1. Canada Hibernia Holding Corporation:

Canada Hibernia Holding Corporation (the "Company" or "CHHC") was incorporated under the provisions of the Canada Business Corporation Act on December 4, 1992. The Company was acquired by Canada Development Investment Corporation ("CDIC") in March 1993. Prior to March 1993 the Company was inactive. The Company is subject to the Financial Administration Act.

On March 19, 1993, the Company acquired for no cost an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC's sole purpose is the holding, management, funding and ultimately assisting in the disposal of the 8.5% equity interest in the Hibernia Development Project. Pursuant to a Memorandum of Understanding ("MOU") dated June 8, 1993 between the Government of Canada ("Government"), CDIC and CHHC the Government appropriated the funds necessary for CHHC to honour its obligations to fund the project costs of the Hibernia Development Project. Production from Hibernia commenced in late 1997 and during 1998 CHHC achieved sufficient cash flow to fund its operations and fulfill its continuing obligations without further government appropriations.

HMDC acts as agent for the participants in the Hibernia Development Project. All project expenditures, other than those relating to the transportation of oil from the project and royalties, are charged to the Joint Account which is owned by the participants in proportion to their working interest. The Joint Account is funded directly by the participants.

The Company's wholly-owned subsidiary, CHHC Oil Limited, was incorporated in December 1997 and is currently inactive.

2. Significant accounting policies:

- (a) Investment in the Hibernia Development Project and Hibernia Management and Development Company Ltd.:

Development costs charged to the Joint Account subsequent to the date of acquisition of the working interest are capitalized. Development costs include costs of engineering construction and installation of production facilities comprised of a Gravity Based Structure and Topsides facilities (offshore production facility). General and administrative costs incurred prior to the project reaching commercial production have also been capitalized. All of the Company's development activities are conducted jointly with the other owners.

CANADA HIBERNIA HOLDING CORPORATION

Notes to Financial Statements, Page 2

Years ended December 31, 2002 and 2001
(All Dollar Amounts are Stated in Thousands)

2. Significant accounting policies (continued):

(b) Contributed surplus:

Appropriations received from the Government to fund the Company's activities were credited to contributed surplus. Funds returned to the government as a return of appropriations are charged against contributed surplus. During 2002, \$127,966 (2001 - \$127,000) was returned to the Government. As at December 31, 2002 all funds received from the government have been returned.

(c) Capital assets:

The Company follows the full cost method of accounting and the net carrying cost of the Company's capital assets is limited to an estimated recoverable amount being the aggregate of future net revenues from proved reserves less future capital costs, costs of undeveloped properties, future general and administrative costs, future site restoration and abandonment costs and income taxes.

(d) Depletion and depreciation:

Costs are transferred to the depreciable pool as proved reserves are established and are depleted on a unit-of-production basis using proved reserves. The Company excludes a portion of incurred costs based on a comparison of existing proved reserves to total proved and probable reserves expected to be established upon the completion of the Project. At December 31, 2002, the Company excluded \$109,800 (2001 - \$114,000) of incurred costs from the calculation of depreciation and depletion. The crude oil tanker is depreciated on a unit of production basis using volumes transported over the estimated life of the Hibernia field.

(e) Future abandonment and site restoration:

Future abandonment costs are expensed on a unit-of-production basis over the life of the remaining proved reserves. These costs are based on year-end engineering estimates of the anticipated costs of site restoration. Actual expenditures, as incurred, will be applied against the future abandonment liability. The Company commenced funding this future liability in 2002 as described in note 5.

CANADA HIBERNIA HOLDING CORPORATION

Notes to Financial Statements, Page 3

Years ended December 31, 2002 and 2001
(All Dollar Amounts are Stated in Thousands)

2. Significant accounting policies (continued):

(f) Foreign currency translation:

Transactions of the Company that are denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect exchange rates at the balance sheet date. Monetary items denominated in a foreign currency and having a fixed or ascertainable life of more than one year are translated into Canadian dollars at the rate of exchange in effect at the end of the period. The resulting unrealized transaction gains or losses are charged to income.

(g) Cash and cash equivalents:

The Company's investments are considered to be cash equivalents and are recorded at cost, plus accrued interest which approximates market value.

(h) Inventory:

Inventory of crude oil is valued at the lower of cost to produce, on a first-in, first-out basis, or net realizable value. The Company had no crude oil inventory at December 31, 2002.

(i) Income taxes:

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using current tax rates.

(j) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CANADA HIBERNIA HOLDING CORPORATION

Notes to Financial Statements, Page 4

Years ended December 31, 2002 and 2001
(All Dollar Amounts are Stated in Thousands)

3. Capital assets:

Capital assets are recorded at cost less accumulated depletion and depreciation.

	2002		2001	
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Hibernia Development Project:				
Offshore production facility	\$ 363,261	\$ 100,458	\$ 262,803	\$ 319,084
Drilling costs	81,490	60,245	21,245	26,408
	444,751	160,703	284,048	345,492
Crude oil tanker (note 6)	39,534	9,475	30,059	32,762
	\$ 484,285	\$ 170,178	\$ 314,107	\$ 378,254

At December 31, 2002, the capital assets balance is reduced by investment tax credits in the amount of \$54,760 (2001 - \$22,000).

4. Cash held in escrow:

In the granting of drilling and other work authorizations associated with Hibernia development and production Newfoundland Offshore Petroleum Board (CNOPB) requires evidence of financial responsibility. The Company has deposited cash in escrow to satisfy this requirement. The CNOPB has the right to make claims against the cash in escrow under certain circumstances and CHHC retains any interest earned on the account.

5. Cash held for future abandonment:

Commencing in 2002 the Company is depositing cash in the Consolidated Revenue Fund of the Federal Government to provide for future abandonment of the Hibernia Facility. It is the Company's intention to ultimately hold cash in this non-interest bearing fund equivalent to the provision for future abandonment.

CANADA HIBERNIA HOLDING CORPORATION

Notes to Financial Statements, Page 5

Years ended December 31, 2002 and 2001
(All Dollar Amounts are Stated in Thousands)

6. Crude oil tanker:

The Company, together with two of the other participants, have contracted for the time charter and operations of a tanker for the transportation of oil from the project. The Company's share of annual fixed obligations is approximately \$6,500. Payments commenced in November 1997 for an initial term of ten years. The agreement provides for one five-year and five two-year optional extensions not to exceed a total lease term of twenty-five years. The time charter has been treated as a capital lease for accounting purposes. Accordingly, CHHC's 25.373% interest in the tanker has been capitalized and is presented on the balance sheet under capital assets. The long-term lease obligation represents the present value of the tanker time charter capital payments discounted at 11.1% over 15 years.

7. Royalty:

The Hibernia Royalty Agreement provides for royalties to be paid by owners, to the province of Newfoundland as follows:

- (a) 1% to 5% payable on gross sales less transportation costs;
- (b) 30% payable on net sales revenue commencing at such time as cumulative net sales revenue exceeds 8½% of the total investments in the Project. Total investment (which includes gross royalties paid in (a) includes a 1% allowance for capital expenditures and a 10% allowance for operating costs, and a 15% return allowance, on the total investment, compounded annually.

During the year ended December 31, 2002 the Company has paid royalties of approximately \$4,436 (2001 - \$2,205).

The Net Profits Interest Agreement (NPI) provides for a 10% royalty payable to the Government of Canada commencing upon the Hibernia owners having repaid certain financial assistance provided by the Government of Canada (estimated to be 2009) and certain levels of project profitability having been achieved. The royalty is payable on each owner's cumulative net sales revenue less cumulative eligible capital, operating and transportation costs. No royalty has been paid to date.

CANADA HIBERNIA HOLDING CORPORATION

Notes to Financial Statements, Page 6

Years ended December 31, 2002 and 2001
(All Dollar Amounts are Stated in Thousands)

8. Income taxes:

The Company has available resource-related deductions which may be carried forward and used in the prescribed manner to reduce taxable income in future years. At December 31, 2002, resource-related deductions were approximately \$111,794 (2001 - \$174,913) and investment tax credits were \$715 (2001 - \$32,875), respectively. The excess of CHHC's net book value of its assets above its income tax pools has been recorded as a future income tax liability at the current income tax rate.

- (a) The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 43% (2001 - 43%) to income before income taxes. The difference relates to the following items:

	2002	2001
Computed expected tax provision	\$ 63,489	\$ 42,527
Add (deduct) the following:		
Resource allowance on Canadian production income	(18,882)	(12,197)
Royalties, lease rentals and mineral taxes	1,907	948
Large Corporation tax	765	867
Other	546	(948)
	\$ 47,825	\$ 31,197
Current	\$ 49,525	\$ 5,999
Future	(1,700)	25,198
	\$ 47,825	\$ 31,197

- (b) The components of the future income taxes at December 31 are as follows:

	2002	2001
Future income tax liabilities:		
Capital assets	\$ 55,971	\$ 56,134
Other	397	77
Future income tax assets:		
Abandonment costs	(6,476)	(4,556)
Capital lease	(892)	(955)
Future income taxes	\$ 49,000	\$ 50,700

CANADA HIBERNIA HOLDING CORPORATION

Notes to Financial Statements, Page 7

Years ended December 31, 2002 and 2001
(All Dollar Amounts are Stated in Thousands)

9. Commitment and contingencies:

- (a) The Company has entered into an agreement with Newfoundland Transshipment Limited whereby the Company acquired the right to the use of the Transshipment Terminal for crude oil storage and transshipment. The Company is committed to pay a portion of the cost of operation of the terminal over a ten-year period. The Company's share of the annual obligations is subject to annual calculations and is approximately \$750 annually.
- (b) CHHC's share of HMDC's annual lease obligations for office, equipment and warehouse land and building together with CHHC's office lease obligation for the next five years are approximately as follows:

2003	\$	2,208
2004		2,091
2005		1,720
2006		1,427
2007		531

10. Supplemental cash flow disclosure:

Changes in non-cash working capital balances:

	2002	2001
Accounts receivable	\$ (46,328)	\$ 29,580
Inventory	123	102
Prepaid expenses	796	(856)
Accounts payable and accrued liabilities	8,936	365
Taxes payable/receivable	44,676	(8,121)
Due to shareholder	(15)	(109)
	\$ 8,188	\$ 20,961

During the year ended December 31, 2002 the Company paid taxes of \$4,475 (2001 - \$14,106) and interest of \$3,781 (2001 - \$3,959).

11. Fair values:

The Company's financial instruments comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and amounts payable to the shareholder. At December 31, 2002 and 2001, the fair values of the monetary assets and liabilities approximated their carrying values due to their short-term nature.

**Canada
Lands
Company
Limited**

Management's Responsibility for Financial Reporting

The consolidated financial statements of Canada Lands Company Limited have been prepared by management of the corporation in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants and the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

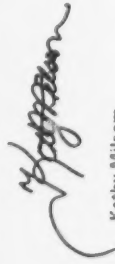
Management maintains financial and management reporting systems which include appropriate controls to provide reasonable assurance that the corporation's assets are safeguarded, to facilitate the preparation of relevant, reliable and timely financial information and to ensure that transactions are in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporations Act and the articles and the by-laws of the corporation.

Where necessary, management uses judgement to make estimates required to ensure fair and consistent presentation of this information.

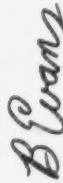
The Board of Directors of Canada Lands Company Limited is composed of seven directors, none of whom are employees of the corporation. The Board of Directors has the responsibility to review and approve the financial statements, as well as overseeing management's performance of its financial reporting responsibilities. An Audit Committee appointed by the Board of Directors of the corporation has reviewed these statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements.

The auditors are responsible for auditing the financial statements and have issued a report thereon.

All other financial and operating data included in the Annual Report are consistent, where appropriate, with information contained in the financial statements.



Kathy Milsom
President and CEO



Brian Evans
Vice President Finance
Chief Financial Officer

16 May 2008

Auditors' Report

To the Minister of Transport

We have audited the consolidated balance sheet of Canada Lands Company Limited as at 31 March 2003 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at 31 March 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporations Act and the articles and the by-laws of the corporation and its wholly-owned subsidiaries.

As required by paragraph 132(2)(b) of the Financial Administration Act, we wish to bring an other matter to Parliament's attention regarding Parc Downsview Park Inc., a wholly-owned subsidiary of the corporation. For the past three years the external auditors have reported that the Government of Canada has not requested, and accordingly Parliament had not provided, clear and explicit authority for the creation and operation of an urban park being undertaken by Parc Downsview Park Inc., nor has Parliament authorized the related spending of public funds. As described in Note 1 to the consolidated financial statements, the Standing Committee on Public Accounts of the House of Commons presented a report to the House on December 3, 2002 and the Government of Canada tabled the government's response to the report on May 2, 2003.

Shahid Minto

Shahid Minto, CA
Assistant Auditor General
for the Auditor General of Canada

Ernst & Young LLP

Chartered Accountants

Ottawa, Canada
16 May 2003

Ottawa, Canada
16 May 2003

Consolidated Statement of Income and Retained Earnings

FOR THE YEAR ENDED 31 MARCH

Consolidated Statement of Income and Retained Earnings for the year ended 31 March 2002

In thousands	Note	2003	2002
REVENUES			
Sales		\$ 89,948	\$ 83,267
Rental		20,870	21,195
Interest and other	11	6,596	10,442
		117,414	114,904
EXPENSES			
Cost of sales		69,888	63,539
Provision for environmental remediation		1,200	-
Provision for decrease in property values		113	1,216
Rental operating costs		16,880	15,463
General and administrative		11,956	13,214
Other		2,725	6,233
		102,762	99,665
INCOME BEFORE PARK OPERATIONS			
		14,652	15,239
Loss from park operations before government funding	8	(1,258)	(1,928)
Government funding for park operations	8	1,381	1,774
		123	(154)
INCOME BEFORE TAXES			
		14,775	15,085
Future income taxes expense (recovery)	9	1,116	903
Current income taxes expense	9	806	3,198
		1,922	4,101
NET INCOME			
		12,853	10,984
Retained earnings, beginning of year		67,946	72,462
Dividend		(4,600)	(15,500)
RETAINED EARNINGS, END OF YEAR			
		\$ 76,199	\$ 67,946

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

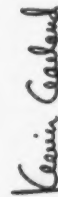
AS AT 31 MARCH

In thousands	Note	2003	2002
ASSETS			
Properties			
Rental properties	3	\$ 79,110	\$ 75,021
Properties under development		82,400	104,148
Land held for development or sale		40,800	49,664
		202,310	228,833
Other Assets			
Cash and cash equivalents	4	58,708	47,600
Amounts receivable and other	5	73,295	80,706
Park landscaping and improvements		7,572	7,940
		139,575	136,246
		\$ 341,885	\$ 365,079
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Notes payable	6	\$ 33,593	\$ 46,965
Accounts payable and accrued liabilities	10	46,848	51,721
Prepaid rents, deposits and lease assignment obligation		21,164	34,366
		101,605	133,052
Shareholder's Equity			
Capital stock	7	-	-
Contributed surplus		145,081	145,081
Equity arising from note payable to the Government of Canada		19,000	19,000
Retained earnings		76,199	67,946
		240,280	232,027
		\$ 341,885	\$ 365,079
Commitments	10		

On behalf of the board



Marc Roehon



Kevin Garland

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH

In thousands	Note	2003	2002
OPERATING ACTIVITIES			
Net income		\$ 12,853	\$ 10,984
Recovery of costs on sale		64,014	22,095
Expenditures on properties		(29,277)	(53,704)
Provision for loss on amounts receivable		—	1,260
Provision for decrease in property values		113	1,216
Depreciation		3,154	3,060
		50,857	(15,089)
Net change in non-cash operating assets and liabilities		(6,551)	861
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		44,306	(14,228)

FINANCING ACTIVITIES

Repayment of notes payable		(25,534)	(38,886)
Dividend paid		(4,600)	(15,500)
Government funding for park	12	1,229	1,623
Government funding used for park operating activities		(1,381)	(1,774)
CASH USED IN FINANCING ACTIVITIES		(30,286)	(54,537)

INVESTMENT ACTIVITIES

Recovery of costs on sale		—	20,844
Expenditures on properties, park and building improvements		(2,912)	(5,963)

CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES

		(2,912)	14,881
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		11,108	(53,884)
Cash and cash equivalents, beginning of year		47,600	101,484

CASH AND CASH EQUIVALENTS, END OF YEAR

		\$ 58,708	\$ 47,600
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Supplemental cash flow information (note 11)

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. AUTHORITY AND ACTIVITIES OF THE CORPORATION

Canada Lands Company Limited, a non-agent Crown corporation, originally named Public Works Lands Company Limited, was incorporated under the *Companies Act* in 1956 and was continued under the *Canada Business Corporations Act*. It is listed as a parent Crown corporation in Part I of Schedule III to the *Financial Administration Act*.

The corporation conducts its real estate business operations through Canada Lands Company CLC Limited ("CLC"), its principal wholly-owned subsidiary. CLC's objective is to carry out a commercially-oriented and orderly disposal program of certain Government of Canada ("government") surplus properties and the management of certain select properties. In undertaking this objective, CLC may manage, develop and dispose of real properties, either in the capacity of owner or as agent for the government.

In July 1998, pursuant to an Order-in-Council, Parc Downsview Park Inc. ("PDP"), (formerly CLC Downsview Inc.), was incorporated as a wholly-owned subsidiary of the corporation. The mandate of PDP, as established by the government, is to redevelop a former military base located in the City of Toronto in Ontario into a unique urban recreational green space to be held in perpetuity for the enjoyment of future generations.

The government has approved in principle, the transfer to PDP by way of freehold title or long-term lease of approximately 644 acres (260 ha) of land at Canadian Forces Base Toronto in Ontario. It is the government's intention that approximately 300 acres (121.4 ha) of this land will be used for park, cultural and recreational purposes, while the remainder will be made available for commercial activities to generate funds that will be used for the development and operation of the park.

The Government of Canada has not requested, and accordingly Parliament has not provided, clear and explicit authority for the creation and operation of an urban park being undertaken by PDP, nor has Parliament authorized the related spending of public funds. Following hearings by the Standing Committee on Public Accounts of the House of Commons on April 9, 2002 and June 4, 2002, the Committee presented a report to the House on December 3, 2002. The report recommended that the Privy Council seek to obtain parliamentary approval to make Parc Downsview Park a parent Crown corporation, prior to March 31, 2003. On May 2, 2003, the government tabled a response to the Standing Committee Recommendations to the House indicating it had decided against accepting the Committee's recommendation, stating that in the government's view "The financial accountability for Crown corporations in Part X of the FAA provides a rigorous means to ensure proper transparency and accountability of PDP Inc., through its parent Crown corporation."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) General

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. With respect to real estate activities, the corporation's accounting policies and standards of financial disclosure are also substantially in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

b) Consolidation

The corporation has three wholly-owned subsidiaries, CLC, PDP and an inactive company, 3148131 Canada Limited ("3148131"), for which their accounts are consolidated with the corporation's accounts.

The corporation also owns shares of Old Port of Montréal Corporation Inc. ("Old Port"). Old Port is excluded from consolidation because the corporation does not have continuing power to determine its strategic operating, investing and financing policies and because Old Port has been directed by the government to report as a parent Crown corporation. The corporation has no recorded investment in Old Port. As at 31 March 2002, the latest date for which audited statements are available, Old Port had assets of \$20.6 million, liabilities of \$19.9 million and equity of \$0.07 million, with revenue of \$13.5 million and an excess of operating expenditures over revenue of \$9.7 million for the year then ended.

c) Revenue Recognition

The corporation recognizes revenue as follows:

i) Sales

Sales revenues are recognized upon title of the property passing to the purchaser and receipt of at least 15% of the total proceeds.

ii) Rental

Revenues and operating costs for rental properties are recognized when break-even cash flow after debt service is achieved but not later than one year after substantial completion.

d) Properties

i) Rental properties are carried at the lower of depreciated cost and net recoverable amount or, if intended for disposition, at the lower of depreciated cost and estimated net realizable value. Properties under development and land held for development or sale are carried at the lower of cost and estimated net realizable value. Adjustments to the carrying value of properties are recorded in the "provision for decrease in property values" in the statement of income.

- ii) The corporation capitalizes interest on specific debt on properties under development and land held for development or sale. During the year ended 31 March 2003, interest capitalized totalled \$0.02 million (2002 – \$0.6 million).
- iii) Depreciation is calculated on the straight-line method using rates based on the estimated remaining useful lives of the assets, which range from 5 to 40 years. Depreciation charge is recorded in other expenses.

e) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

In determining estimates of net realizable values for its properties, the corporation relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. Assumptions underlying asset valuations are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Due to the assumptions made in arriving at estimates of net realizable value, such estimates, by nature, are subjective and do not necessarily result in a precise determination of asset value.

The corporation's properties are subject to various government laws and regulations relating to the protection of the environment. The corporation has made, and expects to make in the future, expenditures to comply with such laws and regulations. Where estimated costs are reasonably determinable, the corporation considers such costs in arriving at estimates of net realizable value of its properties, based on management's estimate of such costs. Such estimates are, however, subject to change based on agreements with regulatory authorities, changes in laws and regulations, the ultimate use of the property, and new information as it becomes available.

f) Income Taxes

Income taxes are recorded according to the liability method of tax allocation for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

3. RENTAL PROPERTIES

The corporation's rental properties consist primarily of the CN Tower and car parking facilities.

In thousands of dollars	2003	2002
Land	\$ 11,261	\$ 10,214
Buildings	88,178	82,799
	99,439	93,013
Accumulated depreciation	20,329	17,992
	\$ 79,110	\$ 75,021

4. CASH AND CASH EQUIVALENTS

In thousands of dollars	2003	2002
Cash	\$ 1,457	\$ 347
Cash equivalents	56,500	45,000
Restricted cash	751	2,253
	\$ 58,708	\$ 47,600

At 31 March 2003, cash equivalents are comprised of discounted notes and term deposits with an original term to maturity ranging from 25 to 91 days.

Cash and cash equivalents include restricted cash of \$0.8 million representing holdback money owing primarily for the Nokia Building Construction project (2002 - \$2.3 million).

5. AMOUNTS RECEIVABLE AND OTHER ASSETS

Amounts receivable and other assets are comprised as follows:

In thousands of dollars	2003	2002
Mortgages and secured notes	\$ 55,211	\$ 58,979
Assignment of rents	5,987	6,179
Rents and other	12,097	15,548
	\$ 73,295	\$ 80,706

- a) Mortgages and secured notes receivable bear interest at a weighted average rate of 5.79% (2002 - 5.88%), and are receivable as follows:

In thousands of dollars	
Years ending 31 March	
2004	\$ 11,181
2005	9,702
2006	6,476
2007	3,520
2008	3,802
Subsequent years	20,530
	\$ 55,211

- b) The corporation has a receivable under an assignment agreement in respect of rents receivable, which entitles it to receive rental income until 2013.

- c) Mortgage receivables that are greater than 10% of the CLC receivables balance include City Place (52.2%) and Malvern (17.0%).

6. NOTES PAYABLE

The notes payable were issued in consideration for the acquisition of real estate properties (Note 11), and are due to the government. The notes are repayable on the earlier of their maturity dates, or the dates on which net proceeds become available from the sale by the corporation of the properties in respect of which the notes were issued. Interest is accrued and capitalized to properties or expensed, as appropriate, at a weighted average rate of 5.6% (2002 - 5.3%).

Based on the anticipated timing of the sale of the real estate properties, principal repayments are estimated to be as follows:

In thousands of dollars	
Years ending 31 March	
2004	\$ 16,638
2005	6,467
2006	6,902
2007	6,412
2008	5,268
Subsequent years	10,423
	52,110
	18,517
Less amounts representing imputed interest	\$ 33,593

7. CAPITAL STOCK

The corporation is authorized to issue three shares, which shall only be transferred to a person approved by the Minister of Transport ("the Minister"). The three authorized shares have been issued and are held in trust for Her Majesty in right of Canada by the Minister. Nominal value has been ascribed to the three issued shares of the corporation.

8. INCOME FROM PARK OPERATIONS

Income from the park operations of PDP is as follows:

In thousands of dollars	2003	2002
Revenues	\$ 12,804	\$ 8,882
Expenses	14,062	10,810
	(1,258)	(1,928)
Government funding	1,381	1,774
Income (loss) before income taxes	\$ 123	\$ (154)

9. INCOME TAXES

The corporation's actual income tax expense under Canadian generally accepted accounting principles differs from the expected income tax expense using the combined federal and provincial rate. The corporation is considered a non-taxable Crown corporation for Ontario and Alberta income tax purposes. A reconciliation of the company's income tax provision to a provision calculated at the combined federal and provincial statutory rate is as follows:

In thousands of dollars	2003	2002
Expected statutory rate of tax	38%	41%
Expected income tax expense	\$ 5,615	\$ 6,185
Increase (decrease) in tax expense resulting from:		
Non-taxable portion of capital gains	(612)	(29)
Income not taxable in certain provinces	(987)	(1,503)
Large corporations tax	461	496
Other	(2,555)	(1,048)
Actual income tax expense	\$ 1,922	\$ 4,101

The corporation has \$0.05 million in non-capital loss carry-forwards for tax purposes, the benefits pertaining to which have not been recognized in these financial statements. The loss carry-forwards will expire in 2008.

The components of the future income tax liabilities are as follows:

In thousands of dollars	2003	2002
Future tax liabilities		
Income producing properties	\$ (1,700)	\$ (2,028)
Notes payable	(1,172)	(1,795)
Capital assets	(138)	(311)
Deferred costs	(41)	(61)
Reserves	(323)	-
	(3,374)	(4,195)
Future tax assets		
Property under development	394	1,795
Reserves	-	343
Benefits of non-capital loss carry-forwards	11	198
Deferred funding	318	351
Net future tax asset (liability) before valuation allowance	(2,651)	(1,508)
Less valuation allowance	(150)	(177)
Net future tax asset (liability)	\$ (2,801)	\$ (1,685)

10. OTHER LIABILITIES AND COMMITMENTS

- The corporation has a commitment under certain agreements to fund payments currently estimated at \$2.0 million annually. The agreement expires in 2003, at which time the corporation is obligated to buy back the property at a nominal price, subject to earlier termination in 2009 under certain circumstances. The corporation's estimate of this obligation, which is based on assumptions regarding future events and economic circumstances, is included in accounts payable and accrued liabilities.
- Capital commitments for servicing requirements and other development costs at 31 March 2003 total \$19.3 million (2002 - \$15.3 million).
- CLC has a \$50 million line of credit with the Bank of Montreal. This line is presently used for letters of credit issued for the fulfillment of certain obligations totalling \$11.7 million at March 31, 2003 (2002 - \$15.4 million).

d) The corporation is a defendant in certain lawsuits originating in the normal course of business. In the opinion of management, these actions will not have a material adverse effect on the financial position of the corporation.

11. CONSOLIDATED STATEMENT OF CASH FLOWS – SUPPLEMENTARY INFORMATION

Property acquisitions and additions which were satisfied by the issuance of notes payable in the amount of \$12.2 million (2002 – \$11.3 million) have been excluded from the financing and investing activities in the consolidated statement of cash flows.

Property disposals satisfied by the issuance of mortgages and secured notes by the corporation or the assumption of debt by the purchasers in the amount of \$5.9 million (2002 – \$20.6 million) have been excluded from the financing, investing and operating activities in the consolidated statement of cash flows.

During the year ended 31 March 2003, interest received totalled \$2.9 million (2002 – \$3.1 million), interest paid amounted to \$0.6 million (2002 – \$1.4 million) and income taxes paid totalled \$4.1 million (2002 – \$5.7 million).

12. RELATED PARTY TRANSACTIONS

The corporation is related in terms of common ownership to all government departments, agencies and Crown corporations. The corporation enters into transactions with these entities in the normal course of business.

In addition to transactions previously disclosed, during the year ended 31 March 2003:

- a) The corporation acquired an interest in real estate properties from government departments and Crown corporations for an aggregate purchase price of \$9.7 million (2002 – \$14.9 million). Consideration for these assets was cash payment or the issuance of notes payable (Note 6).
- b) CLC paid interest totalling \$0.6 million (2002 – \$1.4 million) to a Crown corporation.
- c) PDP received or expects to receive from a government department funding of \$1.2 million (2002 – \$1.6 million) and rental revenue of \$1.4 million (2002 – \$1.5 million).
- d) CLC received management fees of \$0.2 million from a Crown corporation (2002 – \$0.2 million). PDP received management fees from a government department of \$0.2 million (2002 – \$0.2 million).
- e) The corporation has a receivable of \$0.05 million from a federal agency and department for reimbursement of costs (2002 – \$0.04 million).
- f) The corporation received audit services without charge from the Office of the Auditor General of Canada.

13. FINANCIAL INSTRUMENTS

The carrying values of the corporation's amounts receivable, notes payable and lease assignment obligation approximate their fair values based on future cash flows discounted at market rates available to the corporation for financial instruments with similar risk, terms and maturities.

The carrying amounts of short-term investments and accounts payable and accrued liabilities approximate their fair values due to their short-term nature or based on discounted cash flows, as appropriate.

14. BENNY FARM

The corporation is developing this property on behalf of the Canada Mortgage and Housing Corporation ("CMHC"). The corporation's arrangement with CMHC has a mechanism to share profits in the future, should positive cash flows be generated in excess of the existing non-recourse liabilities of the project. The corporation does not expect to reach a positive cash flow position in the future. The corporation has not recorded any activity in its accounts. Conversely, CLC is under no obligation to transfer or use its own assets in settling liabilities of the project.

15. SUBSEQUENT EVENT

Subsequent to year end, the corporation has received authority from the board of directors to enter into an agreement of purchase and sale for an asset of approximately \$50 million. This purchase is subject to a number of conditions, including approval by the corporation's shareholder.

16. COMPARATIVE AMOUNTS

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current year.

**Canada
Mortgage
and
Housing
Corporation**



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Year ended 31 December 2002

CMHC management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying

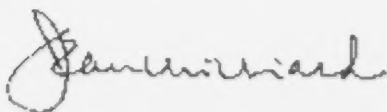
financial statements for the year ended 31 December 2002 were prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, internal audit staff, and independent external auditors to

review the manner in which these groups are performing their responsibilities and to discuss auditing, internal control, and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditors and has submitted its report to the Board of Directors which has approved the financial statements.

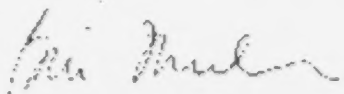
The financial statements have been audited by the joint external auditors, Jean-Guy Poulin, CA, of Mallette, General Partnership and Sheila Fraser, FCA, Auditor General of Canada. Their report provides an independent opinion on the financial statements to the Minister of Transport.

Jean-Claude Villiard

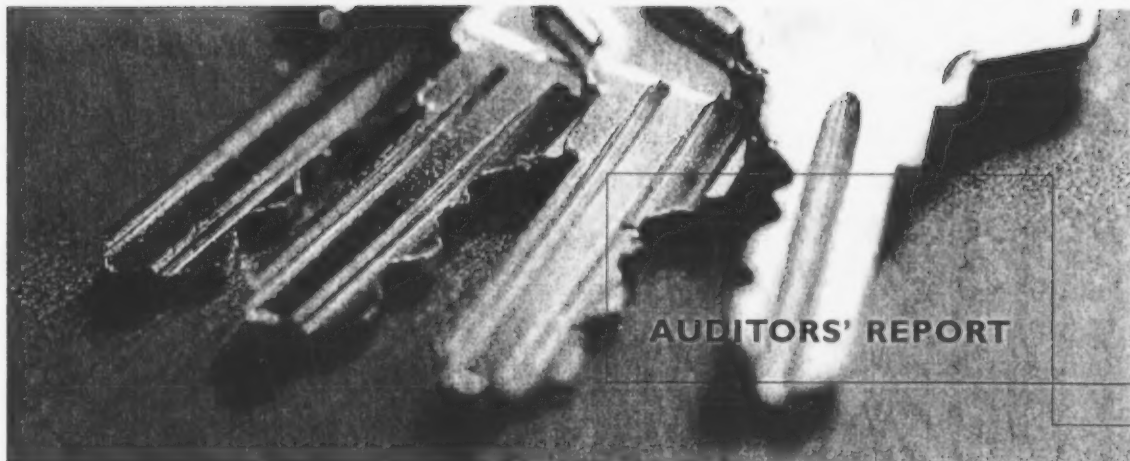


President and Chief Executive Officer

Bill Mulvihill



Vice-President, Information Technology
and Chief Financial Officer



To the Minister of Transport

We have audited the balance sheet of the Canada Mortgage and Housing Corporation as at 31 December 2002, and the statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable

assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance

with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Mortgage and Housing Corporation Act*, the *National Housing Act* and the by-laws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
21 February 2003

Jean-Guy Poulin

Jean-Guy Poulin, CA
Mallette
General Partnership

Quebec City, Canada

Balance Sheet

As at 31 December

(in millions of dollars)

Notes 2002 2001

ASSETS

Loans and Investments in Housing Programs	3	14,601	15,239
Investments in Securities	4	5,418	4,482
Cash and Cash Equivalents		1,439	1,660
Securities Purchased Under Resale Agreements		1,205	1,466
Accrued Interest Receivable		372	427
Accounts Receivable and Other Assets		178	287
Inventory of Real Estate		106	140
Due from the Government of Canada		106	18
Future Income Tax Assets	5	77	103
		23,502	23,822

LIABILITIES

Borrowings from the Capital Markets	6	10,147	10,986
Borrowings from the Government of Canada	6	5,474	5,692
Unearned Premiums and Fees	14	3,649	3,141
Securities Sold Under Repurchase Agreements		1,116	1,240
Provision for Claims	14	620	695
Accounts Payable and Other Liabilities		442	342
Accrued Interest Payable		172	233
Securities Sold But Not Yet Purchased		73	228
		21,693	22,557

EQUITY OF CANADA

Capital Authorized and Fully Paid		25	25
Retained Earnings	7	1,784	1,240
		1,809	1,265
		23,502	23,822

The accompanying notes are an integral part of the financial statements.

Approved by the Board of Directors:

Peter R. Smith, C.M.
Chairman of the Board of Directors

Dino Chiesa
Chair of the Audit Committee
of the Board of Directors

Income Statement

Year ended 31 December

(in millions of dollars)

	Notes	2002	2001	2000
REVENUES				
Interest Earned on Loans and Investments in Housing Programs	8, 18	1,100	1,184	1,242
Premiums and Fees		822	745	697
Investment Income		293	278	257
		2,215	2,207	2,196
Parliamentary Appropriations for:	8			
Housing Programs		1,828	1,789	1,913
Operating Expenses		81	68	83
		1,909	1,857	1,996
		4,124	4,064	4,192
EXPENSES				
Housing Programs	8	1,828	1,789	1,913
Interest Expense		1,042	1,120	1,197
Operating Expenses		224	201	208
Net Claims		139	335	307
Other Expenses	9, 18	37	55	55
		3,270	3,500	3,680
INCOME BEFORE INCOME TAXES		854	564	512
INCOME TAXES	5			
Current		284	185	159
Future		26	34	(23)
		310	219	136
NET INCOME		544	345	376

The accompanying notes are an integral part of the financial statements.

Balance Sheet

As at 31 December

(in millions of dollars)

	Notes	2002	2001
ASSETS			
Loans and Investments in Housing Programs	3	14,601	15,239
Investments in Securities	4	5,418	4,482
Cash and Cash Equivalents		1,439	1,660
Securities Purchased Under Resale Agreements		1,205	1,466
Accrued Interest Receivable		372	427
Accounts Receivable and Other Assets		178	287
Inventory of Real Estate		106	140
Due from the Government of Canada		106	18
Future Income Tax Assets	5	77	103
		23,502	23,822
LIABILITIES			
Borrowings from the Capital Markets	6	10,147	10,986
Borrowings from the Government of Canada	6	5,474	5,692
Unearned Premiums and Fees	14	3,649	3,141
Securities Sold Under Repurchase Agreements		1,116	1,240
Provision for Claims	14	620	695
Accounts Payable and Other Liabilities		442	342
Accrued Interest Payable		172	233
Securities Sold But Not Yet Purchased		73	228
		21,693	22,557
EQUITY OF CANADA			
Capital Authorized and Fully Paid		25	25
Retained Earnings	7	1,784	1,240
		1,809	1,265
		23,502	23,822

The accompanying notes are an integral part of the financial statements.

Approved by the Board of Directors:

Peter R. Smith, C.M.
Chairman of the Board of Directors

Dino Chiesa
Chair of the Audit Committee
of the Board of Directors

Income Statement

Year ended 31 December

(in millions of dollars)

	Notes	2002	2001	2000
REVENUES				
Interest Earned on Loans and Investments in Housing Programs	8, 18	1,100	1,184	1,242
Premiums and Fees		822	745	697
Investment Income		293	278	257
		2,215	2,207	2,196
Parliamentary Appropriations for:	8			
Housing Programs		1,828	1,789	1,913
Operating Expenses		81	68	83
		1,909	1,857	1,996
		4,124	4,064	4,192
EXPENSES				
Housing Programs	8	1,828	1,789	1,913
Interest Expense		1,042	1,120	1,197
Operating Expenses		224	201	208
Net Claims		139	335	307
Other Expenses	9, 18	37	5	55
		3,270	3,500	3,680
INCOME BEFORE INCOME TAXES		854	564	512
INCOME TAXES	5			
Current		284	185	159
Future		26	34	(23)
		310	219	136
NET INCOME		544	345	376

The accompanying notes are an integral part of the financial statements.

Statement of Retained Earnings (Note 7)*(in millions of dollars)*

	Unappropriated	Appropriated	Reserve Fund	Total
Balance 31 December 1999	140	368	11	519
Net Income	367	—	9	376
Transferred to Appropriated	(308)	308	—	
Balance 31 December 2000	199	676	20	895
Net Income	323	—	22	345
Transferred to Appropriated	(262)	262	—	
Balance 31 December 2001	260	938	42	1,240
Net Income	530	—	14	544
Transferred to Appropriated	(442)	442	—	
Balance 31 December 2002	348	1,380	56	1,784

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

Year ended 31 December

(in millions of dollars)

	2002	2001	2000
Cash Flows Provided by (Used in) Operating Activities			
Net Income	544	345	376
Items Not Affecting Cash or Cash Equivalents			
Amortization of Premiums and Discounts	27	18	24
Future Income Taxes	26	7	(42)
Changes in			
Accrued Interest Receivable	55	46	(53)
Accounts Receivable and Other Assets	4	23	(6)
Inventory of Real Estate	34	52	43
Due from the Government of Canada	(88)	297	(77)
Unearned Premiums and Fees	508	305	152
Provision for Claims	(75)	1	(39)
Accounts Payable and Other Liabilities	100	(20)	(116)
Accrued Interest Payable	(61)	(14)	31
	1,074	1,060	293
Cash Flows Provided by (Used in) Investing Activities			
Loans and Investments in Housing Programs			
Repayments	1,085	867	497
Disbursements	(447)	(265)	(254)
Investments in Securities			
Sales and Maturities	2,155	4,955	3,473
Purchases	(3,143)	(5,297)	(3,926)
Change in Securities Purchased Under Resale Agreements	261	(193)	(900)
	(89)	67	(1,110)
Cash Flows Provided by (Used in) Financing Activities			
Medium-term Borrowings from the Capital Markets			
Issuance	1,561	1,868	2,114
Repayments	(2,123)	(1,265)	(1,910)
Change in Short-term Borrowings from the Capital Markets	(147)	(660)	(48)
Repayment of Borrowings from the Government of Canada	(218)	(232)	(217)
Change in Securities Sold Under Repurchase Agreements	(124)	249	991
Change in Securities Sold But Not Yet Purchased	(155)	(58)	(88)
	(1,206)	(98)	842
Increase (Decrease) in Cash and Cash Equivalents	(221)	1,029	25
Cash and Cash Equivalents			
Beginning of Year	1,660	631	606
End of Year	1,439	1,660	631
Represented by:			
Cash	(13)	70	(6)
Temporary Investments	1,452	1,590	637
	1,439	1,660	631
Supplementary Disclosure of Cash Flow Information			
Amount of Interest Paid During the Year	1,103	1,134	1,166
Amount of Income Taxes Paid During the Year	188	174	301

The accompanying notes are an integral part of the financial statements.

Statement of Retained Earnings (Note 7)*(in millions of dollars)*

	Unappropriated	Appropriated	Reserve Fund	Total
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The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

Year ended 31 December

(in millions of dollars)

	2002	2001	2000
Cash Flows Provided by (Used in) Operating Activities			
Net Income	544	345	376
Items Not Affecting Cash or Cash Equivalents			
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Future Income Taxes	26	7	(42)
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Accrued Interest Payable	(61)	(14)	31
	1,074	1,060	293
Cash Flows Provided by (Used in) Investing Activities			
Loans and Investments in Housing Programs	1,085	867	497
Repayments	(447)	(265)	(254)
Disbursements			
Investments in Securities	2,155	4,955	3,473
Sales and Maturities	(3,143)	(5,297)	(3,926)
Purchases	261	(193)	(900)
Change in Securities Purchased Under Resale Agreements	(89)	67	(1,110)
Cash Flows Provided by (Used in) Financing Activities			
Medium-term Borrowings from the Capital Markets	1,561	1,868	2,114
Issuance	(2,123)	(1,265)	(1,910)
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Supplementary Disclosure of Cash Flow Information			
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Amount of Income Taxes Paid During the Year	188	174	301

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2002

1. CORPORATE MANDATE AND ACTIVITIES

Canada Mortgage and Housing Corporation (CMHC) was established as a Crown corporation in 1946 by the *Canada Mortgage and Housing Corporation Act* (the "CMHC Act") to carry out the provisions of the *National Housing Act* (the "NHA"). It is also governed by the *Financial Administration Act*. CMHC's mandate is to promote the construction, repair and modernization of housing, the improvement of housing and living conditions, housing affordability and choice, the availability of low-cost financing for housing, and the national well-being of the housing sector.

CMHC carries out its mandate through three broad activities: Lending, Insurance and Securitization, and Housing Programs. The financial statements reflect the combined results of these activities.

- **Lending:** The Corporation makes loans and investments in housing programs which are funded by borrowings. A significant number of these loans and investments are supported with housing program subsidies.
- **Insurance and Securitization:** The Corporation provides insurance against borrower default on residential mortgages and guarantees the timely payment of principal and interest for investors in securities based on insured mortgages.
- **Housing Programs:** The Corporation receives Parliamentary appropriations which are used to fund housing programs.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related disclosures. Actual results could differ from those estimates.

Loans and Investments in Housing Programs

The Corporation, independently or jointly with the Provinces, Territories, and Municipalities of Canada, funds Loans and Investments in Housing Programs.

Loans are carried at cost. Where loans contain forgiveness clauses, they are recorded net of the forgiveness which is reimbursed through Parliamentary appropriations when the loans are advanced.

Loans made under certain programs contain interest rate clauses that are lower than the interest cost on the related borrowings. Such interest losses are reimbursed through Parliamentary appropriations.

Investments in Housing Programs are carried at cost, less accumulated amortization. Amortization is calculated on a straight-line basis over the life of the investment. The Corporation's portion of net operating loss and disposal losses is reimbursed through Parliamentary appropriations.

Interest Earned on Loans and Investments in Housing Programs is recorded on an accrual basis.

Investments in Securities

The Corporation holds Investments in Securities for both its Lending, and Insurance and Securitization activities.

- **Lending:** Investments are carried at amortized cost. Gains and losses that result from the sale of investments related to hedging interest rate risk associated with funding activities are deferred and amortized to Interest Expense on a straight-line basis over the term of the related debt issue. Gains and losses that result from the sale of investments related to cash management activities are included in income at the time of sale.
- **Insurance and Securitization:** Fixed income securities are generally purchased with the intention to hold them to maturity to meet long-term obligations, and are carried at amortized cost. The securities are written down to their market value when declines in value are other than temporary. The resulting loss is recorded in the year in which the impairment occurs. Gains and losses from disposals are deferred and amortized on a straight-line basis over the remaining life of the original investment. Premiums and discounts are deferred and amortized on a constant yield basis over the maturity period of the related investments.

Equities are carried at cost, plus a moving average market value adjustment. The carrying value is adjusted towards market value at a rate of 15% of the annual change. Specific equities are written down to their market value when declines in the value of the entire equity portfolio are other than temporary. Net gains and losses resulting from sales of equities are deferred and amortized at 15% per annum on a declining-balance basis.

Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements

Securities Purchased Under Resale Agreements consist of the purchase of securities, normally government treasury bills or bonds, with the commitment by the Corporation to resell the securities to the original seller at a specified price and date. Securities Sold Under Repurchase Agreements consist of the sale of securities with the commitment by the Corporation to repurchase the securities from the original buyer at a specified price and date. Securities Purchased Under Resale Agreements and Sold Under Repurchase Agreements are carried at cost, plus accrued interest. The difference between the sale price and the agreed repurchase price on a repurchase agreement, and the difference between the cost of the purchase and the predetermined proceeds to be received on a resale agreement are netted and recorded in income on an accrual basis.

Securities Sold But Not Yet Purchased

Where the Corporation has an obligation to deliver securities which it did not own at the time of sale, they are recorded as Securities Sold But Not Yet Purchased at fair value. Gains and losses that result from the purchase of the securities are deferred and amortized to income on a straight-line basis over the term of the related debt issue.

Inventory of Real Estate

Inventory of Real Estate is carried at the lower of cost or net realizable value. Cost is determined as the acquisition cost, plus modernization and improvement costs where applicable. Net realizable value is calculated as the current market value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs.

For certain properties, net operating losses and disposal losses are reimbursed through Parliamentary appropriations and net operating profits, and disposal gains are returned to the Government of Canada.

Borrowings from the Capital Markets

Issuance costs on borrowings from the capital markets are deferred and amortized on a straight-line basis over the term of the debt issue.

Premiums and discounts on borrowings from the capital markets are deferred and amortized on a constant yield basis over the term of the debt issue.

Premiums and Fees

Premiums are deferred and taken into income over the period covered by insurance contracts based on historical factors that reflect the long-term pattern for default risk by age of a mortgage insurance policy.

Unearned premiums represent the amount of premiums that have been deferred. Unearned premiums correspond to the estimated portion of future insurance coverage and are related to claims that have not occurred at the balance sheet date.

Guarantee fees are deferred and taken into income over the term of the related security issue on a straight-line basis.

Application fees are recognized in income when received.

Costs associated with issuing mortgage insurance policies are expensed as incurred.

Provision for Claims

The Provision for Claims represents an estimate of net mortgage insurance claims expenses for defaults that have occurred on or before the balance sheet date. The provision takes into consideration the time value of money and, in accordance with accepted actuarial practice, includes an explicit provision for adverse deviation.

Housing Programs

Housing Programs involve expenses under the Social Housing Agreements with the Provinces and Territories of Canada, expenses related to housing programs administered by the Provinces and Territories under other agreements, and expenses related to housing programs administered by the Corporation. They also include reimbursement to the Corporation of interest and default losses on certain loans and investments in housing programs, losses on certain real estate properties, and modernization and improvement costs on certain rental properties.

Housing program expenses are funded by Parliamentary appropriations. Those expenses incurred but not yet reimbursed are recorded as Due from the Government of Canada.

Pension and Other Post-Employment Benefits

The Corporation provides pension benefits based on length of service and average earnings of the best five-year period as classified under defined benefit pension arrangements. The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets.

The Corporation also maintains an unfunded supplemental pension plan and provides other post-employment benefits consisting of termination pay, life insurance and medical insurance.

The cost of pension and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected long-term pension plan investment performance, salary increases, retirement ages of employees, mortality of members and expected health care costs.

Costs are determined as the cost of employee benefits for the current year's service, interest expense on the accrued benefit obligation, expected investment return on the fair value of plan assets and the amortization of the transitional asset/obligation, the deferred actuarial gains/losses and the deferred past service costs. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The transitional asset/obligation, and past service costs are amortized over the remaining service period for active employees under the plans. The excess of the net actuarial gain/loss over 10% of the greater of the benefit obligation or the fair value of the plan assets is amortized over the remaining service period for active employees under the plans.

Derivative Financial Instruments

The Corporation enters into derivative financial instruments (interest rate swaps and cross currency swaps) in order to hedge its exposures to market risks such as interest rate risk and foreign exchange risk. The Corporation does not use derivative financial instruments for trading or speculative purposes.

For derivative financial instruments used to hedge interest rate risk, realized gains and losses are recorded as adjustments to Interest Expense on an accrual basis. The related amount payable to or receivable from counterparties is included in accrued interest. For derivative financial instruments used to hedge foreign exchange risk, translation gains and losses on the instrument are offset by translation gains and losses on the related debt.

Gains and losses resulting from early termination of these contracts are deferred and amortized to Interest Expense on a straight-line basis over the remaining term of the underlying exposure.

3. LOANS AND INVESTMENTS IN HOUSING PROGRAMS

The Corporation makes loans and investments in housing programs either independently or jointly with provincial, territorial, and municipal authorities. These loans and investments were issued for terms up to 50 years. Of the total portfolio, \$14,404 million, or 99% (2001 – \$15,080 million or 99%) are due and payable beyond five years.

Approximately \$13,679 million, representing 94% (2001 – \$14,223 million, or 93%) of the loans and investments in housing programs are supported with housing program subsidies.

The Corporation is assured full collection of principal and interest on the majority of the portfolio from the Provinces and Territories through provisions in social housing agreements (37%), the Government of Canada through provisions in the NHA (26%), and Indian and Northern Affairs Canada through Ministerial loan guarantees (3%). Default losses on the remainder of the portfolio (34%) are accounted for in the Corporation's Insurance activity, and accordingly have been included in the determination of Provision for Claims and Unearned Premiums.

4. INVESTMENTS IN SECURITIES

The following table shows the maturity structure and average yield of Investments in Securities.

(in millions of dollars)	Term to Maturity				2002	2001
	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years		
Fixed Income						
Securities Issued or Guaranteed by:						
Government of Canada	28	272	535	1,095	1,930	1,646
Provinces/Municipalities	104	199	69	861	1,233	983
Corporate Entities	145	480	308	656	1,589	1,338
Total Fixed Income	277	951	912	2,612	4,752	3,967
Yield	5.40%	5.38%	5.05%	5.87%	5.59%	5.74%
Equities (no specific maturity)					666	515
Total	277	951	912	2,612	5,418	4,482

Sales of investments during 2002 resulted in a net gain of \$33 million (2001 – \$51 million, 2000 – nil) that has been deferred. Cumulative deferred gains now totaling \$67 million (2001 – \$64 million) are included in Accounts Payable and Other Liabilities and will be brought into income in accordance with accounting policies described in Note 2.

5. INCOME TAXES

The Corporation is a prescribed Crown corporation for tax purposes and, as such, is subject to federal income tax. It is not subject to provincial income tax.

The Corporation's statutory tax rate consists of basic tax, surtax, and large corporations tax.

Taxes at the statutory tax rate and at the effective tax rate are:

(in millions of dollars)	2002	2001	2000
Statutory Tax Rate	37%	39%	38%
Income Taxes Based on Statutory Tax Rate	311	219	196
Future Income Taxes not Previously Recorded	–	–	(80)
Impact on Future Income Tax Assets Resulting from Reduction in Tax Rates	3	(5)	20
Other	(4)	5	–
Income Tax Expense	310	219	136
Effective Tax Rate	36%	39%	26%

Future Income Tax Assets consist of the following temporary differences between the tax basis of assets and liabilities and their carrying amount on the balance sheet.

(in millions of dollars)	2002	2001
Provisions	31	47
Deferred Revenue	33	25
Expenses Incurred But Not Yet Disbursed	18	23
Appreciation in Value of Equities	(6)	4
Other	1	4
Future Income Tax Assets	77	103

6. BORROWINGS

The Corporation borrows from the capital markets and from the Government of Canada under provisions of the CMHC Act to finance Loans and Investments in Housing Programs.

The Corporation has authority to borrow a maximum of \$20 billion from sources other than the Government of Canada.

The following table provides the maturity structure and average yield of borrowings.

(in millions of dollars)	Capital Markets				Government of Canada		Total
	Short-term Borrowings		Medium-term Borrowings				
2003	845	2.82%	1,889	5.20%	244	8.70%	2,978
2004			2,290	5.64%	187	8.72%	2,477
2005			2,208	6.29%	195	8.75%	2,403
2006			1,253	5.17%	195	8.79%	1,448
2007			1,265	5.01%	202	8.93%	1,467
2008-2012			397	5.75%	1,073	8.68%	1,470
Thereafter					3,378	9.21%	3,378
	845	2.82%	9,302	5.56%	5,474	9.04%	15,621

Short-term borrowings are comprised of commercial paper. Medium-term borrowings include bonds and medium-term notes.

Medium-term borrowings from the capital markets include U.S. denominated debt. This debt is translated to Canadian dollars at the exchange rate prevailing on the balance sheet date. Foreign exchange exposure is fully hedged through the use of cross currency swaps, for both interest and principal payments. Swap contracts in place transform U.S. denominated debt into expected net obligations in Canadian dollars at an agreed upon rate established by the associated swap contracts.

4. INVESTMENTS IN SECURITIES

The following table shows the maturity structure and average yield of Investments in Securities.

(in millions of dollars)	Within 1 Year	Term to Maturity		Over 5 Years	2002	2001
		1 to 3 Years	3 to 5 Years			
Fixed Income						
Securities Issued or Guaranteed by:						
Government of Canada	28	272	535	1,095	1,930	1,646
Provinces/Municipalities	104	199	69	861	1,233	983
Corporate Entities	145	480	308	656	1,589	1,338
Total Fixed Income	277	951	912	2,612	4,752	3,967
Yield	5.40%	5.38%	5.05%	5.87%	5.59%	5.74%
Equities (no specific maturity)					666	515
Total	277	951	912	2,612	5,418	4,482

Sales of investments during 2002 resulted in a net gain of \$33 million (2001 – \$51 million, 2000 – nil) that has been deferred. Cumulative deferred gains now totaling \$67 million (2001 – \$64 million) are included in Accounts Payable and Other Liabilities and will be brought into income in accordance with accounting policies described in Note 2.

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Taxes at the statutory tax rate and at the effective tax rate are:

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Statutory Tax Rate	37%	39%	38%
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Future Income Taxes not Previously Recorded	–	–	(80)
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(in millions of dollars)	2002	2001
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Other	1	4
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The Corporation borrows from the capital markets and from the Government of Canada under provisions of the CMHC Act to finance Loans and Investments in Housing Programs.

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The following table provides the maturity structure and average yield of borrowings.

(in millions of dollars)	Capital Markets		Government of Canada		Total
	Short-term Borrowings	Medium-term Borrowings			
2003	845	2.82%	1,889	5.20%	2,444
2004			2,290	5.64%	2,477
2005			2,208	6.29%	2,403
2006			1,253	5.17%	1,448
2007			1,265	5.01%	1,467
2008-2012			397	5.75%	1,470
Thereafter			3,378	9.21%	3,378
	845	2.82%	9,302	5.56%	15,621

Short-term borrowings are comprised of commercial paper. Medium-term borrowings include bonds and medium-term notes.

Medium-term borrowings from the capital markets include U.S. denominated debt. This debt is translated to Canadian dollars at the exchange rate prevailing on the balance sheet date. Foreign exchange exposure is fully hedged through the use of cross currency swaps, for both interest and principal payments. Swap contracts in place transform U.S. denominated debt into expected net obligations in Canadian dollars at an agreed upon rate established by the associated swap contracts.

The foreign denominated medium-term borrowings are:

<i>(in millions of dollars)</i>	2002	2001
U.S. Dollar Obligations	500	1,000
U.S. Dollar Obligations Translated to Canadian Dollars		
Based on Year End Rate	789	1,593
Based on Rate Established Under Swap Contract	726	1,419

7. RETAINED EARNINGS

Retained earnings generated by the Insurance and Securitization activity that have not been set aside for specific purposes are reflected as unappropriated.

Retained earnings generated by the Insurance and Securitization activity that have been set aside for (1) the purposes of capitalization and additional policy reserves consistent with actuarial factors developed by the Office of the Superintendent of Financial Institutions, and (2) other purposes authorized by the Government of Canada are reflected as appropriated.

Retained earnings generated by the Lending activity are reflected as the Reserve Fund. The Reserve Fund is established by legislation and is currently limited to \$100 million.

8. HOUSING PROGRAMS

The Corporation provides payments to support housing programs which are funded by Parliamentary appropriations.

The following table shows the distribution of expenses by major housing program.

<i>(in millions of dollars)</i>	2002	2001	2000
Programs Transferred to Provinces/Territories	964	963	964
Non-Transferred Programs			
Non-Profit	252	248	263
Public Housing	129	125	113
On Reserve	89	92	96
Co-operatives	84	83	98
Rent Assistance	71	63	63
Urban Native	49	52	53
Rural and Native Housing	24	23	72
Affordable Housing	19	—	—
Limited Dividend	13	13	14
Sub-total	730	699	772
Renovation Programs	105	123	106
Research and Information Transfer	9	9	9
Other	20	(5)	62
Total	1,828	1,789	1,913

As described in Note 2, Housing Program Expenses include reimbursement to the Corporation of:

- interest rate losses resulting from certain loans containing interest rate clauses lower than the interest cost on the related borrowings;
- net operating losses on certain investments in housing programs and real estate properties; and
- net default losses on certain loans and net disposal losses on certain investments in housing programs and real estate properties.

The following table summarizes these expenses.

(in millions of dollars)	2002	2001	2000
Interest Losses:			
incurred in the current year	77	83	78
incurred in prior years	21	26	28
Sub-total	98	109	106
Net Operating Losses	18	17	4
Net Default and Disposal Losses	4	4	12
Total	120	130	122

The total reimbursement for interest losses is also included in Interest Earned on Loans and Investments in Housing Programs. Net operating, default and disposal losses are recorded as Due from the Government of Canada and Housing Program Expenses on an accrual basis.

In addition, the Corporation is reimbursed for operating costs associated with the delivery of housing programs. The reimbursement of operating expenses for 2002 of \$81 million (2001 – \$68 million, 2000 – \$83 million) is shown in the Income Statement as Parliamentary Appropriations for Operating Expenses.

9. OTHER EXPENSES

Other Expenses include the Corporation's support of federal public policy initiatives related to housing. For 2001, they included \$18 million towards the Province of Quebec's Assistance Program for owners of pyrite-damaged residential buildings. For 2000, they included \$28 million for assistance to homeowners in British Columbia with moisture damaged homes.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives. The Corporation uses derivatives in connection with its risk management activities.

The foreign denominated medium-term borrowings are:

(in millions of dollars)	2002	2001
U.S. Dollar Obligations	500	1,000
U.S. Dollar Obligations Translated to Canadian Dollars		
Based on Year End Rate	789	1,593
Based on Rate Established Under Swap Contract	726	1,419

7. RETAINED EARNINGS

Retained earnings generated by the Insurance and Securitization activity that have not been set aside for specific purposes are reflected as unappropriated.

Retained earnings generated by the Insurance and Securitization activity that have been set aside for (1) the purposes of capitalization and additional policy reserves consistent with actuarial factors developed by the Office of the Superintendent of Financial Institutions, and (2) other purposes authorized by the Government of Canada are reflected as appropriated.

Retained earnings generated by the Lending activity are reflected as the Reserve Fund. The Reserve Fund is established by legislation and is currently limited to \$100 million.

8. HOUSING PROGRAMS

The Corporation provides payments to support housing programs which are funded by Parliamentary appropriations.

The following table shows the distribution of expenses by major housing program.

(in millions of dollars)	2002	2001	2000
Programs Transferred to Provinces/Territories	964	963	964
Non-Transferred Programs			
Non-Profit	252	248	263
Public Housing	129	125	113
On Reserve	89	92	96
Co-operatives	84	83	98
Rent Assistance	71	63	63
Urban Native	49	52	53
Rural and Native Housing	24	23	72
Affordable Housing	19	—	—
Limited Dividend	13	13	14
Sub-total	730	699	772
Renovation Programs	105	123	106
Research and Information Transfer	9	9	9
Other	20	(5)	62
Total	1,828	1,789	1,913

As described in Note 2, Housing Program Expenses include reimbursement to the Corporation of:

- interest rate losses resulting from certain loans containing interest rate clauses lower than the interest cost on the related borrowings;
- net operating losses on certain investments in housing programs and real estate properties; and
- net default losses on certain loans and net disposal losses on certain investments in housing programs and real estate properties.

The following table summarizes these expenses.

(in millions of dollars)	2002	2001	2000
Interest Losses:			
incurred in the current year	77	83	78
incurred in prior years	21	26	28
Sub-total	98	109	106
Net Operating Losses	18	17	4
Net Default and Disposal Losses	4	4	12
Total	120	130	122

The total reimbursement for interest losses is also included in Interest Earned on Loans and Investments in Housing Programs. Net operating, default and disposal losses are recorded as Due from the Government of Canada and Housing Program Expenses on an accrual basis.

In addition, the Corporation is reimbursed for operating costs associated with the delivery of housing programs. The reimbursement of operating expenses for 2002 of \$81 million (2001 – \$68 million, 2000 – \$83 million) is shown in the Income Statement as Parliamentary Appropriations for Operating Expenses.

9. OTHER EXPENSES

Other Expenses include the Corporation's support of federal public policy initiatives related to housing. For 2001, they included \$18 million towards the Province of Quebec's Assistance Program for owners of pyrite-damaged residential buildings. For 2000, they included \$28 million for assistance to homeowners in British Columbia with moisture damaged homes.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from price movements in one or more underlying securities, indices or other instruments or derivatives. The Corporation uses derivatives in connection with its risk management activities.

These financial contracts are used to hedge exposures to market risks such as interest rate risk and foreign exchange risk. These contracts include:

- Interest rate swaps to hedge reinvestment risk, refinancing risk, or mismatches in the timing of receipts on assets versus payments on liabilities.
- Cross currency swaps to hedge foreign exchange risk arising from foreign denominated debt.

The table below provides the notional amounts of the Corporation's derivative transactions by term to maturity. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and do not represent the fair value, or the potential gain or loss associated with the credit or market risk of such instruments.

(in millions of dollars)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2002	2001
Interest Rate Swaps	4,204	7,083	5,305	777	17,369	16,601
Cross Currency Swaps		726			726	1,419
	4,204	7,809	5,305	777	18,095	18,020

II. MARKET RISK

Market risk is the potential adverse impact on the Corporation's earnings and economic value due to adverse changes in underlying market factors, including interest rates, foreign exchange rates, and equity prices.

Interest Rate Risk

The Corporation manages interest rate risk through the implementation of policies which include risk limits for the Lending activity and for Insurance and Securitization investment activities.

Interest rate risk associated with the Lending activity is managed through asset and liability matching, hedging and capital market strategies.

CMHC's Insurance and Securitization investment portfolios are managed to ensure that price sensitivity relative to benchmark indices is controlled, and that appropriate asset diversification requirements are in place to respect the liability profile.

The table below provides details regarding the Corporation's exposure to interest rate risk. On and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing dates or maturity dates. Effective interest rates are disclosed where applicable. The effective rates shown represent historical rates for fixed rate instruments carried at amortized cost and rates to reset for floating rate instruments.

<i>(in millions of dollars)</i>	Within 1 Year	1 to 5 Years	Over 5 Years	No Specific Maturity	Non- Interest Sensitive	2002	2001
Assets							
Loans and Investments in Housing Programs	2,462	7,197	4,913		29	14,601	15,239
Effective Interest Rate	6.03%	6.13%	8.50%				
Investments in Securities	277	1,863	2,612	666		5,418	4,482
Effective Interest Rate	3.09%	3.85%	5.23%				
Cash and Cash Equivalents	1,235	204				1,439	1,660
Effective Interest Rate	2.77%	3.92%					
Securities Purchased Under Resale Agreements	1,205					1,205	1,466
Effective Interest Rate	3.78%						
Liabilities							
Borrowings from the Capital Markets	2,734	7,016	397			10,147	10,986
Effective Interest Rate	4.46%	5.65%	5.75%				
Borrowings from the Government of Canada	244	779	4,451			5,474	5,692
Effective Interest Rate	8.70%	8.80%	9.08%				
Securities Sold Under Repurchase Agreements	1,116					1,116	1,240
Effective Interest Rate	4.27%						
Securities Sold But Not Yet Purchased	73					73	228
Effective Interest Rate	5.00%						
Off-Balance Sheet Financial Instruments							
Derivative Financial Instruments (notional)							
Receivable Position	3,536	7,215	430		6,914	18,095	18,020
Effective Interest Rate	4.56%	5.62%	5.50%				
Payable Position	3,536	7,215	430		6,914	18,095	18,020
Effective Interest Rate	4.29%	5.53%	5.37%				

These financial contracts are used to hedge exposures to market risks such as interest rate risk and foreign exchange risk. These contracts include:

- Interest rate swaps to hedge reinvestment risk, refinancing risk, or mismatches in the timing of receipts on assets versus payments on liabilities.
- Cross currency swaps to hedge foreign exchange risk arising from foreign denominated debt.

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Interest rate risk associated with the Lending activity is managed through asset and liability matching, hedging and capital market strategies.

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Effective Interest Rate	4.29%	5.53%	5.37%				

Some of the Corporation's Loans and Investments in Housing Programs contain prepayment and/or repricing options. As the Corporation does not have the right to prepay its borrowings from the Government of Canada without penalty, the Corporation is exposed to interest rate risk. While it is difficult to predict prepayment activity, CMHC has estimated the potential impact of prepayment activity on earnings using a range of scenarios. Although unlikely given historical levels, the worst case scenario on future prepayment/repricing activities suggests that the Corporation could be subject to a decrease in earnings of as much as \$514 million over a 19-year time horizon, or an average decline of \$27 million per year.

Foreign Exchange Risk

All currency exposure arising from foreign denominated debt issuance is hedged in accordance with the Corporation's policy.

12. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. Credit risk includes default risk, settlement risk, and downgrade risk and encompasses both the probability of loss and the probable size of the loss, net of recoveries and collateral, over appropriate time horizons. CMHC is exposed to credit risk from various sources directly and indirectly, including directly from its investment, lending and hedging transactions and indirectly from potential claims arising from the Corporation's Insurance and Securitization activity.

The Corporation manages credit risk associated with investments and derivatives through the implementation of policies which include counterparty credit limits and diversification of credit risk. A credit risk management function, which is independent of the business activities, monitors and evaluates credit risk exposures and the credit-worthiness of counterparties on a regular basis.

Cash Equivalents and Investments in Securities

The table below shows the distribution of credit exposure. The exposure is divided into short-term (less than one year) and long-term (greater than one year). The majority of the short-term exposure, 84%, is rated "R-I high" or equivalent, and 68% of long-term exposure is to "AAA" and "AA" rated counterparties.

The credit risk arising from cash equivalents and investments in securities is considered to be the fair value of these positions, including accrued interest. Where legally enforceable through contractual repurchase/reverse repurchase agreements, transaction exposures to counterparties are netted against collateral to derive the Corporation's overall net credit exposure to counterparties for repurchase/reverse repurchase transacting.

(in millions of dollars)		Cash Equivalents	Investments in Securities	2002	2001
Fixed Income					
Short-term		1,523	285	1,808	1,736
Long-term			4,710	4,710	3,909
Total Fixed Income		1,523	4,995	6,518	5,645
Equities			644	644	529
Total		1,523	5,639	7,162	6,174

The Corporation's credit risk related to concentration of investments is diversified across sectors as follows:

(in millions of dollars)	Cash Equivalents	Investments in Securities	2002	2001
Fixed Income				
Securities Issued or Guaranteed by:				
Government of Canada	535	2,022	2,557	2,299
Provinces/Municipalities		1,312	1,312	1,014
Corporate Entities	988	1,661	2,649	2,332
Total Fixed Income	1,523	4,995	6,518	5,645
Equities		644	644	529
Total	1,523	5,639	7,162	6,174

Derivative Financial Instruments

The credit risk associated with derivatives is normally a fraction of the notional amount of the derivative instrument. For internal risk management purposes, the credit risk arising from a derivative transaction is considered to be the estimated fair value plus an estimate for potential exposure. The Corporation subjects its derivative related credit risks to the same policies that it uses for managing other transactions that create credit exposure.

The table below shows the credit exposure of the Corporation's derivatives by term to maturity.

(in millions of dollars)	Within 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	2002	2001
Interest Rate Swaps	68	136	95	25	324	260
Cross Currency Swaps		152			152	286
	68	288	95	25	476	546

Where legally enforceable through International Swaps and Derivatives Association master swap agreements various derivative transaction exposures to counterparties are netted to derive the Corporation's overall net credit exposures to counterparties. The table below shows the Corporation's fair value of derivatives by counterparty credit rating. The Corporation has netting agreements in place with all counterparties.

(in millions of dollars)	AAA	AA	2002	2001
Fair Value	33	443	476	546

Some of the Corporation's Loans and Investments in Housing Programs contain prepayment and/or repricing options. As the Corporation does not have the right to prepay its borrowings from the Government of Canada without penalty, the Corporation is exposed to interest rate risk. While it is difficult to predict prepayment activity, CMHC has estimated the potential impact of prepayment activity on earnings using a range of scenarios. Although unlikely given historical levels, the worst case scenario on future prepayment/repricing activities suggests that the Corporation could be subject to a decrease in earnings of as much as \$514 million over a 19-year time horizon, or an average decline of \$27 million per year.

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(in millions of dollars)	AAA	AA	2002	2001
Fair Value	33	443	476	546

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts set out below represent the fair values of on- and off-balance sheet financial instruments using the valuation methods and assumptions referred to below. Fair value amounts are designed to represent estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties.

As many of the Corporation's financial instruments lack an available trading market, fair values are based on estimates using present value and other valuation techniques. These techniques are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Due to the use of subjective judgment and uncertainties, the fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

(in millions of dollars)	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Loans and Investments in Housing Programs	14,601	16,660	15,239	17,105
Investments in Securities	5,418	5,585	4,482	4,584
Cash and Cash Equivalents	1,439	1,440	1,660	1,660
Securities Purchased Under Resale Agreements	1,205	1,205	1,466	1,466
Accrued Interest Receivable	372	372	427	427
Accounts Receivable and Other Assets	178	178	287	287
Due from the Government of Canada	106	106	18	18
Liabilities				
Borrowings from the Capital Markets	10,147	10,579	10,986	11,229
Borrowings from the Government of Canada	5,474	7,447	5,692	7,494
Securities Sold Under Repurchase Agreements	1,116	1,116	1,240	1,240
Accounts Payable and Other Liabilities	442	442	342	342
Accrued Interest Payable	172	172	233	233
Securities Sold But Not Yet Purchased	73	73	228	228
Off-Balance Sheet Financial Instruments				
Derivative Financial Instruments				
In a Net Receivable Position		194		306
In a Net Payable Position		41		28

Fair values of the following financial instruments are determined by reference to quoted market prices:

- Investments in Securities
- Cash and Cash Equivalents
- Borrowings from the Capital Markets (Medium-term)

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(in millions of dollars)	2002		2001	
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Off-Balance Sheet Financial Instruments				
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Fair values of the following financial instruments are determined by reference to quoted market prices:

- Investments in Securities
- Cash and Cash Equivalents
- Borrowings from the Capital Markets (Medium-term)

Fair values of the following financial instruments are estimated using net present value analysis:

- Loans and Investments in Housing Programs
- Borrowings from the Government of Canada
- Derivative Financial Instruments

The fair values of all other financial instruments are equal to carrying values due to their short-term nature.

14. ACTUARIAL VALUATION OF INSURANCE ACTIVITIES

Role of the Appointed Actuary

The actuary is appointed by the Corporation's management. With respect to preparation of these statements, the actuary is required to carry out a valuation of the policy liabilities of the mortgage insurance activity and to provide an opinion to the Corporation's management regarding their appropriateness at the valuation date. The factors and techniques used in the valuation are in accordance with accepted actuarial practice, applicable legislation, and associated regulations. The scope of the valuation encompasses the policy liabilities that consist of a Provision for Claims on the expired portion of policies and of future obligations on the unexpired portion of policies. In performing the valuation of the liabilities for these contingent future events, which are by their very nature inherently variable, the actuary makes assumptions as to future claim rates, average loss on claims, trends, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies.

The valuation is based on projections of future losses on claims and related expenses. It is certain that the actual future claims will not develop exactly as projected and may in fact vary significantly from the projections. Further, the projections make no provision for new classes of claims categories not sufficiently recognized in the claims database.

Projection of September Valuation

The actuarial valuation is produced as of 30 September each year. The Corporation determines provisions for claims and unearned premiums at 31 December using valuation factors taking into account new business, claims, and interest for the last quarter.

Nature of Provision for Claims

The establishment of the Provision for Claims for mortgage insurance is based on known facts and interpretation of circumstances, and is therefore a complex and dynamic process, influenced by a large variety of factors. These factors include the Corporation's past experience, historical trends in reporting patterns, level of outstanding claims in process, average claim rates (claim frequency), average loss on claims (claim severity), and recent past and projected economic conditions influencing immediate future claim levels.

These factors are continually evolving and changing as they are affected by underwriting and claim settlement procedures, actuarial studies, professional experience, the quality of data utilized for projection purposes, economic conditions, and general credit behaviour. Consequently, the establishment of the Provision for Claims necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

All provisions are periodically reviewed and evaluated in light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as adjustments to provisions in the accounting period in which they are determined.

15. INSURANCE AND SECURITIZATION IN FORCE

Mortgage Insurance

Under Section 11 of the NHA, the aggregate outstanding amount of mortgage insurance policies may not exceed \$250 billion. At 31 December 2002, insurance policies in force totaled \$224 billion (2001 – \$211 billion).

Securitization

Under Section 15 of the NHA, the aggregate outstanding amount of principal guarantees may not exceed \$250 billion. At 31 December 2002, guarantees in force totaled \$45 billion (2001 – \$35 billion) which includes amounts guaranteed under the Canada Mortgage Bonds program as described in Note 20.

16. EMPLOYEE FUTURE BENEFITS

The Corporation has a defined benefit pension plan and a supplemental pension plan. The Corporation also provides other post-employment benefits. Information about the employee future benefits is as follows:

(in millions of dollars)	Pension Plans		Other Post-employment Benefits	
	2002	2001	2002	2001
Accrued Benefit Obligation				
Balance, Beginning of Year	857	822	82	76
Current Service Cost	15	14	1	1
Employees' Contributions	2	2	–	–
Interest Cost	57	55	5	5
Benefits Paid	(47)	(47)	(3)	(2)
Actuarial Loss (Gain)	(10)	11	(3)	2
Balance, End of Year	874	857	82	82
Plan Assets				
Fair Value, Beginning of Year	964	1,035	–	–
Actual Return on Plan Assets	(48)	(27)	–	–
Employer's Contributions	1	1	3	3
Employees' Contributions	2	2	–	–
Benefits Paid	(47)	(47)	(3)	(3)
Fair Value, End of Year	872	964	–	–
Funded Status – Plan Surplus (Deficit)	(2)	107	(82)	(82)
Unamortized Net Actuarial Loss	205	104	9	12
Unamortized Past Service Costs	74	82	–	–
Unamortized Transitional Obligation (Asset)	(241)	(271)	38	42
Accrued Benefit Asset (Liability)	36	22	(35)	(28)

Included in pension plans are amounts in respect of an unfunded supplemental pension plan as follows:

(in millions of dollars)	Supplemental Pension Plan	
	2002	2001
Fair Value of Plan Assets	-	-
Accrued Benefit Obligation	22	21
Funded Status - Plan Surplus (Deficit)	(22)	(21)

The accrued benefit asset for the defined benefit pension plan is included in Accounts Receivable and Other Assets. The total accrued benefit liability for the supplemental pension plan and for the other post-employment benefits is included in Accounts Payable and Other Liabilities.

In performing the actuarial valuations of employee future benefits, certain assumptions are adopted. These assumptions include a 7% (2001 - 7%) discount rate and long-term rate of return on plan assets, and a 4% (2001 - 4%) rate of compensation increase. A 10% (2001 - 15%) increase in health care costs was assumed for 2002, with 1.3% (2001 - 2.5%) decreases per year thereafter to an ultimate trend rate of 5%. The average remaining service period is 11 years (2001 - 11 years) for pension plans and 12 years (2001 - 13 years) for other post-employment benefits.

As a result of the excess funded status of the defined benefit pension plan, the Corporation has been required to take a legally mandated contribution holiday since 1997.

The Corporation's net benefit plan expense is as follows:

(in millions of dollars)	Pension Plans		Other Post-employment Benefits	
	2002	2001	2002	2001
Current Service Cost,				
Net of Employees' Contributions	15	14	1	1
Interest Cost	57	55	6	5
Expected Return on Plan Assets	(63)	(68)	-	-
Amortization of Transitional Obligation (Asset)	(30)	(30)	3	4
Amortization of Past Service Cost	8	8	-	-
Net Benefit Plan Expense (Credit)	(13)	(21)	10	10

15. INSURANCE AND SECURITIZATION IN FORCE

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The Corporation has a defined benefit pension plan and a supplemental pension plan. The Corporation also provides other post-employment benefits. Information about the employee future benefits is as follows:

(in millions of dollars)	Pension Plans		Other Post-employment Benefits	
	2002	2001	2002	2001
Accrued Benefit Obligation				
Balance, Beginning of Year	857	822	82	76
Current Service Cost	15	14	1	1
Employees' Contributions	2	2	—	—
Interest Cost	57	55	5	5
Benefits Paid	(47)	(47)	(3)	(2)
Actuarial Loss (Gain)	(10)	11	(3)	2
Balance, End of Year	874	857	82	82
Plan Assets				
Fair Value, Beginning of Year	964	1,035	—	—
Actual Return on Plan Assets	(48)	(27)	—	—
Employer's Contributions	1	1	3	3
Employees' Contributions	2	2	—	—
Benefits Paid	(47)	(47)	(3)	(3)
Fair Value, End of Year	872	964	—	—
Funded Status – Plan Surplus (Deficit)	(2)	107	(82)	(82)
Unamortized Net Actuarial Loss	205	104	9	12
Unamortized Past Service Costs	74	82	—	—
Unamortized Transitional Obligation (Asset)	(241)	(271)	38	42
Accrued Benefit Asset (Liability)	36	22	(35)	(28)

Included in pension plans are amounts in respect of an unfunded supplemental pension plan as follows:

(In millions of dollars)	Supplemental Pension Plan	
	2002	2001
Fair Value of Plan Assets	—	—
Accrued Benefit Obligation	22	21
Funded Status – Plan Surplus (Deficit)	(22)	(21)

The accrued benefit asset for the defined benefit pension plan is included in Accounts Receivable and Other Assets. The total accrued benefit liability for the supplemental pension plan and for the other post-employment benefits is included in Accounts Payable and Other Liabilities.

In performing the actuarial valuations of employee future benefits, certain assumptions are adopted. These assumptions include a 7% (2001 – 7%) discount rate and long-term rate of return on plan assets, and a 4% (2001 – 4%) rate of compensation increase. A 10% (2001 – 15%) increase in health care costs was assumed for 2002, with 1.3% (2001 – 2.5%) decreases per year thereafter to an ultimate trend rate of 5%. The average remaining service period is 11 years (2001 – 11 years) for pension plans and 12 years (2001 – 13 years) for other post-employment benefits.

As a result of the excess funded status of the defined benefit pension plan, the Corporation has been required to take a legally mandated contribution holiday since 1997.

The Corporation's net benefit plan expense is as follows:

(In millions of dollars)	Pension Plans		Other Post-employment Benefits	
	2002	2001	2002	2001
Current Service Cost,				
Net of Employees' Contributions	15	14	1	1
Interest Cost	57	55	6	5
Expected Return on Plan Assets	(63)	(68)	—	—
Amortization of Transitional Obligation (Asset)	(30)	(30)	3	4
Amortization of Past Service Cost	8	8	—	—
Net Benefit Plan Expense (Credit)	(13)	(21)	10	10

17. SEGMENTED INFORMATION

As described in Note 1, the Corporation carries out its mandate through three activities: Lending, Insurance and Securitization, and Housing Programs. For segmented information purposes, the Insurance and Securitization activity is segregated into its two components. The financial results of each activity are determined using the accounting policies described in Note 2.

The Lending activity includes certain Corporate items which are not allocated to each activity. The Housing Program activity includes reimbursements to the Lending activity as described in Notes 8 and 18. These reimbursements are not eliminated in the table below.

	Lending		Insurance		Securitization		Housing Programs		Elimination of Inter-Segment Items		Total	
(in millions of dollars)	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Interest Earned	1,100	1,184							-	-	1,100	1,184
Investment Income	-	-	292	276	7	8			(6)	(6)	293	278
Premiums, Fees and Parliamentary Appropriations	-	-	797	726	25	19	1,909	1,857	-	-	2,731	2,602
Total Revenues	1,100	1,184	1,089	1,002	32	27	1,909	1,857	(6)	(6)	4,124	4,064
Interest Expense	1,048	1,126							(6)	(6)	1,042	1,120
Operating Expenses	20	23	118	104	5	6	81	68	-	-	224	201
Housing Programs, Net Claims and Other Expenses	2	(3)	175	391	(1)	2	1,828	1,789	-	-	2,004	2,179
Total Expenses	1,070	1,146	293	495	4	8	1,909	1,857	(6)	(6)	3,270	3,500
Income Taxes	16	16	283	193	11	10					310	219
Net Income	14	22	513	314	17	9					544	345
Direct Lending Loans	8,938	9,303							-	-	8,938	9,303
Other Loans and Investments in Housing Programs	5,663	5,936							-	-	5,663	5,936
Investments in Securities	226	239	5,152	4,231	135	107			(95)	(95)	5,418	4,482
Other Assets	1,427	2,024	2,016	2,064	48	28			(8)	(15)	3,483	4,101
Total Assets	16,254	17,502	7,168	6,295	183	135			(103)	(110)	23,502	23,822
Capital Market Borrowings	10,242	11,081							(95)	(95)	10,147	10,986
Government of Canada Borrowings	5,474	5,692									5,474	5,692
Unearned Premiums and Fees			3,575	3,087	74	54					3,649	3,141
Other Liabilities	457	662	1,958	2,086	16	5			(8)	(15)	2,423	2,738
Total Liabilities	16,173	17,435	5,533	5,173	90	59			(103)	(110)	21,693	22,557
Equity	81	67	1,635	1,122	93	76					1,809	1,265

18. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with certain of these entities in the normal course of business. All material related party transactions are either disclosed below or in relevant notes.

Interest and default losses on certain loans and investments in housing programs and losses on certain real estate properties are reimbursed through Parliamentary appropriations. The total of such reimbursements, which are not considered subsidies to others, amounted to \$120 million (2001 – \$130 million, 2000 – \$122 million) of which \$98 million (2001 – \$109 million, 2000 – \$106 million) is included in Interest Earned on Loans and Investments in Housing Programs. The reimbursement for 2002 includes \$27 million (2001 – \$33 million) towards the losses incurred by the Corporation as a result of the prepayment and repricing activity described in Note 11, of which \$21 million (2001 – \$26 million) relates to losses incurred in prior years. The 2000 figure included \$28 million for prior year interest rate losses on the Rural and Native Housing Program.

In recognition of the Government of Canada's financial backing to support CMHC's Insurance and Securitization activity, the Corporation pays the Government annual fees. The fees for 2002 are \$38 million (2001 – \$33 million, 2000 – \$27 million) and are included in Other Expenses.

The interest expense related to Borrowings from the Government of Canada is \$506 million (2001 – \$525 million).

In exchange for real estate transferred to Canada Lands Company CLC Limited in 1998 and 1999, the Corporation holds notes receivable at 7.35% due by 2014. The amount due to the Corporation is \$36 million (2001 – \$42 million) including accrued interest.

19. COMMITMENTS

Commitments outstanding for Loans and Investments in Housing Programs, net of forgiveness, amounted to \$45 million at 31 December 2002 (2001 – \$53 million). The majority (93%) of these outstanding commitments pertain to social housing loans which are normally advanced within a two-year period.

Total remaining contractual obligations for Housing Programs extend for periods up to 35 years. Uncertainty in forecasting the economic factors used to calculate the financial obligations precludes reasonable estimation beyond five years.

Estimated obligations for the next five years are:

(in millions of dollars)	2003	2004	2005	2006	2007
	1,802	1,773	1,743	1,723	1,722

17. SEGMENTED INFORMATION

As described in Note 1, the Corporation carries out its mandate through three activities: Lending, Insurance and Securitization, and Housing Programs. For segmented information purposes, the Insurance and Securitization activity is segregated into its two components. The financial results of each activity are determined using the accounting policies described in Note 2.

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Interest Earned	1,100	1,184							—	—	1,100	1,184
Investment Income	—	—	292	276	7	8			(6)	(6)	293	278
Premiums, Fees and Parliamentary Appropriations	—	—	797	726	25	19	1,909	1,857	—	—	2,731	2,602
Total Revenues	1,100	1,184	1,089	1,002	32	27	1,909	1,857	(6)	(6)	4,124	4,064
Interest Expense	1,048	1,126							(6)	(6)	1,042	1,120
Operating Expenses	20	23	118	104	5	6	81	68	—	—	224	201
Housing Programs, Net Claims and Other Expenses	2	(3)	175	391	(1)	2	1,828	1,789	—	—	2,004	2,179
Total Expenses	1,070	1,146	293	495	4	8	1,909	1,857	(6)	(6)	3,270	3,500
Income Taxes	16	16	283	193	11	10					310	219
Net Income	14	22	513	314	17	9					544	345
Direct Lending Loans	8,938	9,303							—	—	8,938	9,303
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Unearned Premiums and Fees			3,575	3,087	74	54					3,649	3,141
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Total Liabilities	16,173	17,435	5,533	5,173	90	59			(103)	(110)	21,693	22,557
Equity	81	67	1,635	1,122	93	76					1,809	1,265

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Total remaining contractual obligations for Housing Programs extend for periods up to 35 years. Uncertainty in forecasting the economic factors used to calculate the financial obligations precludes reasonable estimation beyond five years.

Estimated obligations for the next five years are:

(in millions of dollars)	2003	2004	2005	2006	2007
	1,802	1,773	1,743	1,723	1,722

20. CANADA HOUSING TRUST

Canada Housing Trust (CHT) is a special purpose trust which purchases, from various financial institutions, ownership interests in eligible housing loans, such as National Housing Act mortgage-backed securities (NHA MBS), and issues Canada Mortgage Bonds (CMB).

The Trustee of CHT has entered into agreements with a number of parties to provide various services to CHT, including CMHC. Under one such agreement, CMHC has guaranteed the timely payment of the interest payments and the principal at maturity on all CMB issued by CHT to date.

In addition, under a Financial Services Advisor (FSA) Agreement, CMHC performs a number of other services for CHT, including gauging market demand for bond issuance and assessing the potential supply of housing loans available to be packaged for sale to CHT.

At 31 December 2002, CMHC had guarantees in force totaling \$17.9 billion (2001 – \$4.7 billion) of CMB issued by CHT. Once provided, the CMHC guarantee on CMB becomes an obligation of the Government of Canada and irrevocable until full repayment of the CMB at maturity (typically within five years of issuance).

21. CONTINGENT LIABILITIES

There are legal claims of \$23 million (2001 – \$27 million) against the Corporation. Due to the uncertainty of the outcome of these claims, no provision for loss has been made.

22. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform to the 2002 statement presentation.

**Canada
Pension
Plan
Investment
Board**



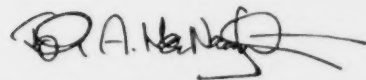
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements include certain amounts based on management's judgments and best estimates where deemed appropriate. Management is responsible for the integrity and reliability of the financial statements and the financial information contained within the annual report.

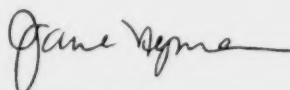
The CPP Investment Board develops and maintains systems of internal control and supporting procedures. They are designed to provide reasonable assurance that assets are safeguarded, records are properly maintained and transactions are properly authorized and are in accordance with the *Canada Pension Plan Investment Board Act* and the accompanying regulations and the by-laws and investment policies of the CPP Investment Board. These controls include the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies and guidelines throughout the organization. Internal controls are reviewed and evaluated by both internal and external auditors in accordance with their respective annual audit programs approved by the Audit Committee.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the internal and external auditors to discuss the scope and findings of audits and other work they may be requested to perform from time to time, to review financial information and to discuss the adequacy of internal controls. The Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity and reliability of the CPP Investment Board's financial reporting and the adequacy of internal control systems.



JOHN A. MACNAUGHTON
President and Chief Executive Officer



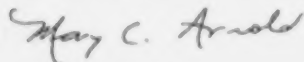
JANE NYMAN
Vice President – Finance and Operations



INVESTMENT CERTIFICATE

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2003, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Investment Statement and Investment Policies.



MARY C. ARNOLD, FCA

Chair of the Audit Committee on behalf of the Board of Directors, May 8, 2003

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
CANADA PENSION PLAN INVESTMENT BOARD

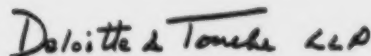
We have audited the consolidated balance sheet and the consolidated statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2003 and the consolidated statements of income/(loss) and accumulated net loss from operations and of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2003 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.



CHARTERED ACCOUNTANTS

Toronto, Ontario, May 2, 2003

CONSOLIDATED BALANCE SHEET

As at March 31, 2003 (\$000's)	2003	2002
ASSETS		
Investments (Note 2)	\$ 17,861,767	\$ 14,289,378
Investment receivables (Note 2c)	40,624	—
Due from brokers	35,005	2,343
Premises and equipment	1,112	1,278
Other assets	980	79
TOTAL ASSETS	17,939,488	14,293,078
LIABILITIES		
Investment liabilities (Note 2)	449,757	—
Due to brokers	34,497	3,382
Accounts payable and accrued liabilities	4,490	4,730
TOTAL LIABILITIES	488,744	8,112
NET ASSETS	\$ 17,450,744	\$ 14,284,966
NET ASSETS, REPRESENTED BY		
Share capital (Note 4)	\$ —	\$ —
Accumulated net loss from operations	(4,238,916)	(86,626)
Accumulated Canada Pension Plan transfers	21,689,660	14,371,592
NET ASSETS	\$ 17,450,744	\$ 14,284,966

On behalf of the Board of Directors

Gail Cook-Bennett

Gail Cook-Bennett
Chairperson

Mary C. Arnold

Mary C. Arnold, FCA
Chair of the Audit Committee

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME/(LOSS) AND ACCUMULATED NET LOSS FROM OPERATIONS

Year ended March 31, 2003 (\$000's)	2003	2002
INVESTMENT INCOME/(LOSS) (Note 6)	\$ (4,139,424)	\$ 316,034
INVESTMENT AND ADMINISTRATIVE EXPENSES		
Salaries and benefits (Note 7a)	4,796	4,283
General operating expenses (Note 7b)	4,835	3,204
External investment management fees	1,809	2,951
Professional and consulting fees (Note 7c)	1,426	970
	12,866	11,408
NET INCOME/(LOSS) FROM OPERATIONS	(4,152,290)	304,626
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF YEAR	(86,626)	(391,252)
ACCUMULATED NET LOSS FROM OPERATIONS, END OF YEAR	\$ (4,238,916)	\$ (86,626)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31, 2003 (\$000's)	2003	2002
NET ASSETS, BEGINNING OF YEAR	\$ 14,284,966	\$ 7,154,169
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 5)	7,318,068	6,826,171
Net income/(loss) from operations	(4,152,290)	304,626
INCREASE IN NET ASSETS FOR THE YEAR	3,165,778	7,130,797
NET ASSETS, END OF YEAR	\$ 17,450,744	\$ 14,284,966

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO

The CPP Investment Board's investments, before allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

As at March 31, 2003 (\$000's)	Fair Value	
	2003	2002
EQUITIES (Note 2)		
Canada		
Public markets	\$ 11,050,810	\$ 9,824,428
Private markets	260,609	144,207
	11,311,419	9,968,635
Non-Canada		
Public markets	4,245,184	3,832,505
Private markets	1,264,851	316,051
	5,510,035	4,148,556
TOTAL EQUITIES		
(Cost: \$20,335,762; 2002 - \$14,546,009)	16,821,454	14,117,191
REAL RETURN ASSETS (Note 2b)		
Public markets real estate	218,488	145,141
Private markets real estate	246,484	—
TOTAL REAL RETURN ASSETS		
(Cost: \$644,914; 2002 - \$144,442)	464,972	145,141
NOMINAL FIXED INCOME		
Money market securities ¹		
(Cost: \$575,377; 2002 - \$27,046)	575,341	27,046
TOTAL INVESTMENTS	17,861,767	14,289,378
INVESTMENT RECEIVABLES (Note 2c)		
Dividends receivable ²	40,272	—
Accrued interest	352	—
TOTAL INVESTMENT RECEIVABLES		
(Cost: \$40,716; 2002 - \$Nil)	40,624	—
INVESTMENT LIABILITIES		
Due to private equity partnerships (Note 2d)	(171,972)	—
Debt on real estate properties (Note 2b)	(152,000)	—
Credit facility (Note 3)	(125,000)	—
Derivative liabilities (Note 2a)	(785)	—
TOTAL INVESTMENT LIABILITIES		
(Cost: \$452,067; 2002 - \$Nil)	(449,757)	—
NET INVESTMENTS	\$ 17,452,634	\$ 14,289,378

¹ As described more fully in Note 2a, at March 31, 2003, \$250 million of money market securities, together with Canadian equity index swaps, provide additional exposure to Canadian public market equities.

² At March 31, 2002, the CPP Investment Board held units of pooled and mutual funds and did not receive dividends directly in respect of these investments.

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO

The CPP Investment Board's investments, after allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

As at March 31, 2003 (\$000's)	2003		2002	
	Fair Value	(%)	Fair Value ⁵	(%)
EQUITIES				
Canada ¹	\$ 11,560,652	66.2%	\$ 9,968,635	69.8%
Non-Canada ²	5,510,035	31.6%	4,148,556	29.0%
REAL RETURN ASSETS				
Real estate ³	312,972	1.8%	145,141	1.0%
NOMINAL FIXED INCOME				
Money market securities ⁴	68,975	0.4%	27,046	0.2%
	\$ 17,452,634	100.0%	\$ 14,289,378	100.0%

¹ Includes derivative contracts and associated money market securities as described more fully in Note 2a.

² Includes private equity liabilities offset by money market securities held to discharge those liabilities.

³ Net of mortgage debt on real estate properties as described more fully in Note 2b.

⁴ Includes credit facility liability, accrued interest and dividends receivable.

⁵ For the year ended March 31, 2002, there were no derivative contracts or investment liabilities or receivables and therefore no allocations were required.

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2003

ORGANIZATION

The Canada Pension Plan Investment Board (the "CPP Investment Board") was formed pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the "CPP") and the ability of the CPP to meet its financial obligations.

The CPP Investment Board has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiaries. The financial statements include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

Certain comparative figures have been reclassified to conform with the current year presentation.

(B) VALUATION OF INVESTMENTS

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value for investments is determined as follows:

- (i) Quoted market prices for publicly traded equities and unit values for pooled funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities.
- (ii) In the case of private equity investments, where quoted market prices are not available, fair value is determined annually, commencing after the first year of ownership, based on carrying values and other relevant information reported by external managers of the limited partnerships in which the investments are made. These carrying values are determined by the external managers using accepted industry valuation methods. These methodologies include considerations such as

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

earnings multiples of comparable publicly traded companies, discounted cash flows and third party transactions, or other events which suggest material impairment or improvement in the fair value of the investment. On a quarterly basis, when there is evidence of a significant change in fair value, the valuation is adjusted, as appropriate. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity investments, unless there is an indication of permanent impairment of value.

- (iii) The fair value of private market investments in income producing properties is determined annually, commencing after the first year of ownership, using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate. Debt on real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.
- (iv) Fair value for over-the-counter derivatives such as swaps is determined based on discounted cash flows and market prices for underlying assets with similar characteristics.
- (v) Money market securities are recorded at cost which, together with accrued interest income, approximates fair value.

(C) INVESTMENT INCOME RECOGNITION

Investment income is recorded on the accrual basis and includes realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income, distributions from mutual and pooled funds, and net operating income from private market real estate investments.

Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the year-over-year change in the difference between fair value and cost of investments.

(D) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Investments denominated in foreign currencies and held at the year end are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses are included in investment income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(E) CANADA PENSION PLAN TRANSFERS

Amounts received from the CPP are recorded on a cash basis.

(F) INCOME TAXES

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Canada. The CPP Investment Board's subsidiaries are exempt from Part I tax under paragraph 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the subsidiaries are owned by a corporation whose shares are owned by Her Majesty in right of Canada.

(G) USE OF ESTIMATES

In preparing these financial statements, management makes certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results could differ from these estimates.

2. INVESTMENTS

The CPP Investment Board has established investment policies which set out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board takes into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2003, these assets totalled approximately \$33.7 billion at cost (2002 - \$35.0 billion) and consisted primarily of provincial debt obligations.

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held as at March 31, 2003.

(A) DERIVATIVE CONTRACTS

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indexes, interest rates or currency exchange rates.

As at March 31, 2003, the CPP Investment Board had equity swap contracts outstanding to exchange money market interest payments for the return on a Canadian equity index. The contracts had a notional amount of \$250 million and a term to maturity of one year. Notional amounts are used to compute the cash flows and for determining the fair value of the contracts. Notional amounts of derivative contracts are not recorded as assets or liabilities on the balance sheet.

The fair value of derivative contracts is \$(785,000) at March 31, 2003 (2002 - \$Nil) and is recorded as a liability on the balance sheet. Consistent with the investment policies,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

the swap contracts are fully covered by cash and cash equivalents. The economic impact on the total investment asset mix is to increase Canadian public market equities exposure by 1.4%, with a corresponding decrease in money market securities exposure.

(B) REAL RETURN ASSETS

The CPP Investment Board obtains exposure to real estate through investments in publicly traded securities and privately held real estate. Private real estate investments are held by a subsidiary and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at March 31, 2003, the CPP Investment Board's share of these investments include \$246,484,000 of assets primarily related to properties (2002 - \$Nil) and \$152,000,000 of liabilities related to short-term mortgage debt (2002 - \$Nil), which will be replaced with permanent financing within one year of the initial financing date.

(C) INVESTMENT RECEIVABLES

Investment receivables include dividends receivable on public market equities of \$40,272,000 (2002 - \$Nil) and accrued interest of \$352,000 (2002 - \$Nil) on term deposits.

(D) DUE TO PRIVATE EQUITY PARTNERSHIPS

Amounts due to partnerships represent the second installment owing to a limited partnership relating to the purchase by the partnership during the year of a portfolio of private equity investments.

(E) MANAGEMENT FEES

Private equity investments are generally made by taking interests in limited partnerships with a typical term of 10 years. The limited partnerships' underlying investments represent equity ownerships or investments with the risk and return characteristics of equity.

The CPP Investment Board advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the general partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between 1.5% and 2.0% of the total amount committed to the limited partnerships, and are included as part of the CPP Investment Board's cost of the investments. As discussed more fully in Note 1b, the carrying values of these investments are reviewed at least annually and any resulting adjustments are reflected as gains or losses. During the year ended March 31, 2003, management fees totalling \$47 million (2002 - \$9 million) were included in the capital advanced to the limited partnerships.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(F) COMMISSIONS

Commissions are paid to brokers on purchases and sales of publicly traded equities. Commissions on purchases are included as part of the cost of publicly traded equities. Commissions on sales are deducted from realized gains and losses as a cost of disposition. During the year ended March 31, 2003, the CPP Investment Board paid total brokerage commissions of \$6 million (2002 – \$4 million).

(G) FOREIGN CURRENCY RISK

The CPP Investment Board is exposed to currency risk through holdings of Non-Canadian investments and investment receivables. Investments are not hedged against changes in foreign exchange rates. The underlying currency exposures as at March 31, 2003 are as follows:

(\$000's)	2003		2002	
	Fair Value	% of Total	Fair Value	% of Total
Currency				
United States Dollar	\$ 3,091,739	56%	\$ 2,163,954	52%
Euro	1,020,149	19%	697,552	17%
British Pound Sterling	577,369	10%	542,765	13%
Japanese Yen	448,268	8%	388,170	9%
Swiss Franc	166,886	3%	156,826	4%
Other	237,265	4%	199,996	5%
	\$ 5,541,676	100%	\$ 4,149,263	100%

(H) CREDIT RISK

The CPP Investment Board limits credit risk by dealing with counterparties that have a minimum credit rating of A or R-1 (short term) as determined by a recognized credit rating agency, where available, or as determined through an internal credit rating process. Credit exposure is limited to maximum amounts approved by the Board of Directors.

3. CREDIT FACILITY

The CPP Investment Board maintains a \$300,000,000 unsecured credit facility to meet potential liquidity requirements relating to investment activities. As at March 31, 2003, the total amount drawn on the credit facility was \$125,000,000 (2002 – \$Nil). Consistent with the investment policies, the credit facility will be repaid within 45 days of draw date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is \$100 divided into 10 shares having a par value of \$10 each. The shares are owned by Her Majesty in right of Canada.

5. CANADA PENSION PLAN TRANSFERS

Section 111 of the *Canada Pension Plan* provides for the transfer to the CPP Investment Board of funds not required by the CPP to pay current benefits. The funds come from both employer and employee contributions to the CPP, proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government, and interest income generated from this portfolio. During the year, a total of \$7,318,068,000 (2002 - \$6,826,171,000) was transferred to the CPP Investment Board.

6. INVESTMENT INCOME/(LOSS)

(A) INVESTMENT INCOME/(LOSS)

Investment income/(loss) consists of the following, after giving effect to derivative contracts and investment receivables and liabilities. During the current year, the CPP Investment Board sold units held in index pooled and mutual funds and purchased the individual securities underlying the funds. The sale of these units resulted in realized gains or losses representing the difference between the market price of the securities and the cost of the index pooled fund units.

(\$000's)	2003	2002
Net gain/(loss) ¹		
Canada	\$ (2,688,743)	\$ 405,763
Non-Canada ²	(1,747,865)	(111,867)
	(4,436,608)	293,896
Dividend income		
Canada	218,388	12,153
Non-Canada	69,767	—
	288,155	12,153
Other income ³	9,029	9,985
Total investment income/(loss)	\$ (4,139,424)	\$ 316,034

¹ Includes unrealized losses of \$3,264,646 (2002 - unrealized gains of \$459,247), realized losses of \$1,532,754 (2002 - realized losses of \$378,669), and distributions of capital gains and dividends from public equity pooled and mutual funds of \$360,792 (2002 - \$213,318).

² Includes foreign exchange losses of \$244,697,000 (2002 - foreign exchange gains of \$43,259,000).

³ Includes private market real estate operating income of \$786,508 (2002 - \$Nil), which is net of debt interest of \$3,013,847 (2002 - \$Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(B) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

	2003		2002	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Canadian equity investments	(17.3)%	(17.5)%	5.9%	4.7%
Non-Canadian equity investments	(27.6)%	(28.0)%	(2.3)%	(2.8)%
Real return assets	(50.7)%	9.2%	2.6%	1.1%
Total	(21.1)%	(20.3)%	3.4%	2.4%

The CPP Investment Board uses a variety of metrics over the short, medium and long term to evaluate investment performance. Benchmark returns are based upon the S&P/TSX Composite for Canadian equity investments, a combination of the S&P 500 and the MSCI EAFE for Non-Canadian equity investments, and CPI + 4.5% for real return assets. The total portfolio benchmark return aggregates the asset class benchmark returns according to the weights specified in the investment policies.

Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

7. INVESTMENT AND ADMINISTRATIVE EXPENSES

(A) EXECUTIVE COMPENSATION

The CPP Investment Board determines executive compensation based on compensation principles approved by the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Compensation earned by the five most highly compensated executive officers of the CPP Investment Board during fiscal 2003 amounted to \$1,684,254 (2002 – \$1,752,580) and consisted of the following:

Name	Year	Salary	Annual Bonus ²	Long-Term Bonus ²	Benefits ³
John A. MacNaughton	2003	\$ 400,000	\$ 90,000	\$24,875	\$ 55,944
President and Chief Executive Officer	2002	\$ 363,650	\$ 181,825	\$ 31,526	\$ 52,419
Mark Weisdorf	2003	\$ 215,000	\$ 80,500	\$ —	\$ 30,452
Vice President – Private Market Investments	2002	\$ 185,000	\$ 148,000	\$ —	\$ 25,191
Donald Raymond ¹	2003	\$ 185,000	\$ 74,000	\$ —	\$ 24,278
Vice President – Public Market Investments	2002	\$ 106,019	\$ 84,815	\$ —	\$ 8,564
Valter Viola	2003	\$ 180,600	\$ 69,500	\$ —	\$ 21,266
Vice President – Research and Risk Management	2002	\$ 170,000	\$ 132,940	\$ —	\$ 19,043
Jane Nyman	2003	\$ 170,000	\$ 41,000	\$ 4,039	\$ 17,800
Vice President – Finance and Operations	2002	\$ 160,000	\$ 62,880	\$ 5,120	\$ 15,588

¹ Commenced employment on September 4, 2001.

² Bonus awards include an annual and a long-term component and are based on the achievement of agreed objectives. The long-term bonus reflects amounts payable for the current year. Additionally, long-term bonuses awarded but not yet paid include approximately \$305,946 for payment in 2004, \$539,653 for payment in 2005, and \$501,000 for payment in 2006. These amounts are adjusted annually by the total portfolio return. The payment of long-term bonus is subject to executive officers meeting certain conditions of employment.

³ Benefits include pension contributions in connection with a defined contribution registered pension plan and a defined contribution supplementary pension plan, life insurance, club dues, and other miscellaneous non-cash remuneration.

(B) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

(\$000's)	2003	2002
Office rent, supplies and equipment	\$ 1,537	\$ 1,314
Custodial fees	876	213
Communication expenses	673	572
Technology, data and analytical services	625	160
Travel and accommodation	421	272
Directors' remuneration	373	325
Other operating expenses	330	348
	\$ 4,835	\$ 3,204

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Directors' remuneration includes an annual retainer for each director of \$14,000 (2002 - \$12,000), board and committee meeting fees of \$1,000 per meeting (2002 - \$900), plus an additional annual retainer of \$3,250 for each committee chair (2002 - \$3,000). Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the usual custom. Commencing April 1, 2002 the Chair of the Board of Directors receives \$85,000 in annual compensation but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings. In fiscal 2003, the Chair received a total of \$96,000 (2002 - \$62,900).

In fiscal 2003, the Board of Directors held 8 board and investment committee meetings (2002 - 10) and 15 other committee meetings (2002 - 17).

(C) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consist of the following:

(\$000's)	2003	2002
Professional accounting and external audit ¹	\$ 550	\$ 270
Legal	467	261
Consulting ²	409	439
	\$ 1,426	\$ 970

¹ Includes audit fees of \$370,000 (2002 - \$172,000) and other audit-related fees of \$180,000 (2002 - \$98,000).

² Includes non-audit-related fees of \$Nil (2002 - \$40,022) that were paid to the external auditors of the CPP Investment Board.

8. COMMITMENTS

The CPP Investment Board has committed to enter into private equity and real estate investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2003, these outstanding commitments totalled \$3.9 billion (2002 - \$2.0 billion).

9. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* was passed by Parliament on April 3, 2003, and is now subject to provincial approval. The provisions of the amending legislation contemplate a transfer of the CPP assets currently managed by the federal government. If the legislative change is approved by the provinces, these assets will be transferred to the CPP Investment Board over a period of three years. The CPP assets consist of a bond portfolio and a cash operating balance and as at March 31, 2003 totalled approximately \$33.7 billion at cost.

**Canada
Post
Corporation**



Management's Responsibility for Financial Reporting

Management and the Board of Directors are responsible for the consolidated financial statements and all other information presented in this Annual Report. The Financial Administration Act and regulations require the consolidated financial statements to be prepared in accordance with Canadian generally accepted accounting principles. Management has been proactive in disclosing information which typically would only be required to be disclosed by enterprises whose securities are traded in a public market.

Where appropriate, the consolidated financial statements include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

In support of its responsibilities, management maintains financial and management control and information systems and management practices which are of high quality, consistent with reasonable cost. These systems and practices are designed to provide reasonable assurance that relevant and reliable financial information is produced and the assets are safeguarded and controlled in accordance with the Financial Administration Act and regulations, as well as the Canada Post Corporation Act and by-laws of the Corporation. Internal audits examine and

evaluate the adequacy of the system of internal control to assess and manage the Corporation's risks, and reports are issued to the Management Executive Committee and the Audit Committee of the Board.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee, which is composed of the Chairman of the Board of Directors (ex-officio) and five directors who are not employees of the Corporation. The Audit Committee meets regularly to oversee the internal audit activities of the Corporation, and at least annually to review the consolidated financial statements and the external auditors' report thereon and recommend them to the Board of Directors for approval.

Canada Post Corporation is a Crown corporation named in Part II of Schedule III of the Financial Administration Act since 1989. Accordingly, each period, the Governor in Council appoints the Corporation's external auditors after giving consideration to the recommendations of the Corporation's Board of Directors on this matter. Deloitte & Touche LLP were reappointed for the current period. They audit the consolidated financial statements and report to the Audit Committee as well as the Minister responsible for Canada Post Corporation.

All parent Crown corporations are subject to a special examination at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined may require. The special examination, a type of value-for-money audit, serves to provide an independent opinion to the board of directors on whether the corporation's financial and management control and information systems and management practices were maintained in a manner that provided reasonable assurance that the assets of the corporation were safeguarded and controlled; the financial, human and physical resources of the corporation were managed economically and efficiently; and the operations of the corporation were carried out effectively. A special examination is carried out by the auditor of a parent Crown corporation. Deloitte & Touche LLP carried out the last special examination in respect of the Corporation. Their examination covered the period from September 1, 1998 to May 31, 1999.



President and Chief Executive Officer
March 14, 2003

Auditors' Report on the Consolidated Financial Statements

To the Minister Responsible for Canada
Post Corporation:

We have audited the consolidated balance sheet of Canada Post Corporation as at December 31, 2002 and the consolidated income and equity of Canada and cash flow statements for the twelve month period then ended (pages 35 to 53). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the twelve month period then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Administration Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding period.

Further, in our opinion, the transactions of the Corporation and of its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Post Corporation Act and the by-laws of the Corporation and its wholly-owned subsidiaries.

Deloitte + Touche LLP

Chartered Accountants
Ottawa, Canada
March 14, 2003

Consolidated Income and Equity of Canada Statement

Period ended December 31 (in millions of dollars)	2002 (12 months)	2001 (9 months)
Revenue from operations	\$ 6,154	\$ 4,441
Cost of operations		
Salaries	2,934	2,123
Benefits	668	458
Collection, processing and delivery	944	710
Accommodation	296	203
Amortization	226	144
Other	930	683
	5,998	4,321
Income from operations	156	120
Non-operating income (expense)		
Investment and other income	12	19
Interest and other expense	(41)	(7)
	(29)	12
Income before income taxes	127	132
Income taxes (note 8)	56	65
Net income	71	67
Deficit, beginning of period	(275)	(321)
	(204)	(254)
Dividend	16	21
Deficit, end of period	(220)	(275)
Contributed capital (note 13)	1,155	1,155
Equity of Canada	\$ 935	\$ 880

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Period ended December 31
(in millions of dollars)

	2002 (12 months)	2001 (9 months)
Cash flows from (used in) operating activities		
Net income	\$ 71	\$ 67
Adjustments for:		
Amortization of property, plant and equipment	214	135
Amortization of goodwill	10	8
Amortization of intangible assets	2	1
Gain on disposal of property, plant and equipment	4	(2)
Amortization of deferred incentives	(5)	(2)
Other expense	8	-
Future income tax expense (benefit)	(55)	13
Accrued employee future benefits	431	307
	680	527
Employee future benefit payments	(343)	(239)
Change in non-cash working capital, net of effects of business acquisitions (note 12)	175	(209)
	512	79
Cash flows from (used in) investing activities		
Business acquisitions, net of cash and cash equivalents acquired	(4)	(31)
Short-term investments	(29)	-
Other receivables	(6)	-
Segregated cash and investments	(134)	(103)
Installments on note receivable	62	52
Acquisition of property, plant and equipment	(341)	(205)
Proceeds from sale of property, plant and equipment	20	3
Proceeds from long-term incentives	29	-
Other assets	2	-
	(401)	(284)
Cash flows from (used in) financing activities		
Repayment of long-term debt	(1)	(2)
Dividend paid	(16)	(21)
	(17)	(23)
Net increase (decrease) in cash and cash equivalents	94	(228)
Cash and cash equivalents, beginning of period	356	584
Cash and cash equivalents, end of period	\$ 450	\$ 356

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at December 31
(in millions of dollars)

2001

2002

ASSETS

Current assets
Cash and cash equivalents \$ 450 \$ 356
Short-term investments 29 -
Accounts receivable and other receivables (note 4) 517 499
Prepaid expenses 71 68
Current portion of note receivable 18 24
Current portion of future income taxes 47 11

958

Segregated cash and investments (note 5)
Note receivable (note 6) 835 701
Property, plant and equipment (note 7) - 56
Future income taxes (note 8) 1,687 1,573
Other assets (note 9) 162 132
283 257

\$ 3,677

LIABILITIES AND EQUITY OF CANADA

Current liabilities
Accounts payable and accrued liabilities \$ 551 \$ 424
Salaries and benefits payable 423 395
Deferred revenue 155 158
Outstanding money orders 43 41
Current portion of long-term debt 18 2

1,020

Deferred incentives
Long-term debt (note 10) 30 11
Employee future benefits (note 11) 99 61
1,845 1,705
3,164 2,797

Equity of Canada

880

\$ 3,677

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

Chairman of the Board of Directors

Chairperson of the Audit Committee

Notes to Consolidated Financial Statements

(December 31, 2002)

1. INCORPORATION

Canada Post Corporation (the "Corporation") was established by the Canada Post Corporation Act in 1981 to operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada. Canada Post Corporation is a Crown corporation included in Part II of Schedule III to the Financial Administration Act and is an agent of Her Majesty.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. A summary of the significant accounting policies follows:

- (a) **Consolidation** • The consolidated financial statements include the accounts of Canada Post Corporation and all its subsidiaries together with its proportionate share of the accounts of joint ventures (collectively "The Canada Post Group").
- (b) **Fiscal year-end** • Effective April 1, 2001, Canada Post Corporation and its wholly-owned subsidiaries changed their fiscal year-end from the last Saturday in March to December 31. Therefore, The Canada Post Group's twelve month period ended December 31, 2002 included 52 weeks compared to 39 weeks for the nine month period ended December 31, 2001.
- (c) **Temporary investments** • Temporary investments consist of investment grade fixed income securities carried at cost, which approximate fair value due to the short period to maturity. Investments with maturities of three months or less from the date of acquisition are presented as cash equivalents while short-term investments all have original maturities greater than three months. The time weighted average rate of return on the temporary investments held as at December 31, 2002 is 2.7% (2001 - 4.0%).
- (d) **Property, plant and equipment** • Land, buildings and equipment transferred from the Government of Canada on incorporation were recorded at their fair value at that date, determined as follows:

Land	• market value based on existing use
Buildings	• amortized replacement cost
Plant equipment, vehicles, sales counters, office furniture and equipment, and other equipment	• amortized replacement cost or original cost less estimated amortization

The market value of land and the amortized replacement cost of buildings transferred by the Government of Canada were determined by independent appraisals.

Acquisitions subsequent to incorporation are recorded at cost.

Canada Post Corporation has an agreement with both the National Archives of Canada and the Canadian Museum of Civilization to operate, administer and maintain a Canadian Postal Archives and a Canadian Postal Museum, respectively, containing philatelic material, postal artifacts, a postal library and exhibits that trace the history of the mail and other memorabilia. These collections, exhibits and books of undetermined value are not for resale and are recorded at a nominal cost.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortization is provided on a straight-line basis over the estimated useful lives of the following assets:

Buildings	30 and 40 years
Leasehold improvements	Initial fixed lease term plus period of first renewal option
Plant equipment	3 to 30 years
Vehicles (other than passenger and light-duty commercial)	6 to 10 years
Sales counters, office furniture and equipment and software	2 to 20 years
Other equipment	5 to 15 years

Amortization is provided on a diminishing balance basis at an annual rate of 30% for all passenger and light-duty commercial vehicles.

- (e) **Goodwill** • Goodwill arising on the acquisition of businesses is amortized on a straight-line basis over 20 years. The carrying amount is reviewed annually to determine whether there has been an impairment in value, that is other than temporary.
- (f) **Intangible assets** • Intangible assets consist of acquired service contracts recorded at cost and amortized on a straight-line basis over the term of the respective contracts plus the period of first renewal option, if any, for a total term not exceeding 10 years.
- (g) **Revenue recognition** • Revenue is recognized when the service has been performed. Amounts received from customers for which services have not been rendered prior to the end of the year are deferred. Incentive received upon signing of a 10 year outsourcing contract is amortized on a straight-line basis over the term of the contract. Lease inducements received are amortized on a straight-line basis over the initial fixed lease term plus the period of the first renewal option, if any. Amortization of the incentive and the lease inducements are presented as reduction of expense.
- (h) **Employee future benefit plans** • Canada Post Corporation has a number of defined benefit plans providing pension benefits, other retirement benefits and termination benefits to its employees. In addition, Prologistix-Solutions Inc. (Prologistix) maintains a defined benefit and defined contribution pension plan, as well as other retirement benefit plans. The cost of pensions benefits, other retirement benefits and termination benefits earned by employees is actuarially determined using the projected benefit method prorated on service and expected investment performance, salary escalation, retirement ages of employees and trends in health care and dental costs. For the purpose of calculating the expected return on plan assets, those assets are valued at market-related values. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. Funding excess is amortized on a straight-line basis over the average remaining service period of employees active on October 1, 2000. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the average remaining service period of active employees (known as the corridor approach). The average remaining service periods of Canada Post Corporation active employees covered by the pension, other retirement benefit and termination benefit plans as at December 31, 2002 are 10 and 11 years (2001 – 11 years). The average remaining service period of Prologistix's active employees covered by the pension and other retirement benefit plans as at December 31, 2002 is 14 years (2001 – 14 years).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Government of Canada, as part of the federal public sector pension reform, has committed to provide declining transitional support to assist Canada Post Corporation with the incremental costs incurred as a result of establishing the Canada Post Corporation Pension Plan (CPCPP) and ancillary benefits. The transitional support also includes the funding of the liability assumed by Canada Post Corporation as of October 1, 2000 for the plans providing dental and death benefits to employees after retirement. Receipt of this support is conditional on Canada Post Corporation maintaining other retirement enhancements similar to those offered to the Public Service Superannuation Act participants and, also, the Corporation showing visible commitment and progress towards achieving the financial and service performance objectives set out in the Policy Framework and reflecting them in future corporate plans. Therefore, transitional support relating to incremental costs is recognized only when received.

Canada Post Corporation is also subject to the Government Employees Compensation Act and, therefore, is not mandatorily covered under any provincial workers' compensation act. As a self-insured employer, Canada Post Corporation is accountable for liability incurred since incorporation. Liability for workers' compensation benefits is actuarially determined based on known awarded disability and survivor pensions and other potential future awards in respect of accidents that occurred up to the valuation measurement date. The benefit entitlements are based on the respective provincial workers' compensation act and the Alberta legislation for the three territories, in effect on that date. An accrued post-employment benefit obligation representing the continuation of certain employer paid benefits for employees on long-term disability is also actuarially determined. The determination takes into account expected mortality, recoveries and health care and dental trend rates. The excess of the net actuarial gain (loss) over 10% of the obligation is amortized over a period of 10 years, which is consistent with the average duration of these liabilities.

Purolator Holdings Ltd. (Purolator) has a number of defined benefit plans and a defined contribution plan providing pension benefits to most of its employees. Purolator has adopted the same accounting policies as Canada Post Corporation and Prologistix except that the plan assets are valued at fair value for the purpose of calculating the expected return on plan assets and the corridor. Past service costs from plan amendments are amortized over the remaining service period of employees active at the date of amendment. The average remaining service periods of the active employees covered by the pension plans as at December 31, 2002 are 14 to 17 years (2001 - 16 and 17 years).

(i) **Income taxes** • On March 27, 1994, Canada Post Corporation became a prescribed Crown corporation for tax purposes and, as such, is subject to federal income taxation under the Income Tax Act.

Future income tax assets and future income tax liabilities are recognized for the tax effect of the difference between the carrying values and tax basis of assets and liabilities. Future income tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that it is more likely than not that future income tax assets will be realized. Income tax assets and income tax liabilities are measured using substantively enacted income tax rates and income tax laws. These amounts are reassessed each year in case of changes in income tax rates. Each change resulting from a revaluation is recognized in the financial results of the period of change.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- (j) **Foreign currency translation** • Foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the rates of exchange in effect at the balance sheet date, or, when hedged, at rates prescribed by foreign currency contracts. All exchange gains and losses are included in determining net income for the current period.
- (k) **Measurement uncertainty** • The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, the following balances contain significant estimates: employee future benefits, future income taxes and salaries and benefits payable. Actual results may differ from the estimates.
- (l) **Comparative figures** • Certain prior period comparative figures have been reclassified to conform with the current period's presentation.

3. BUSINESS ACQUISITIONS

On June 29, 2001, the Corporation acquired 97.4% of the outstanding common shares of Progistix. The aggregated purchase price was \$36 million, comprising \$34 million of cash and \$2 million in deferred payment. Additional consideration of \$4 million is payable, based on the annual achievement by Progistix of a specified threshold of revenue from the vendor until 2005. Progistix is also in the process of obtaining regulatory approvals for the transfer of pension plan assets and, therefore, the allocation of the purchase price is subject to refinement. This acquisition was accounted for by the purchase method with the results of operations being included in the consolidated financial statements since that date.

4. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

As at December 31
(in millions of dollars)

	2002	2001
Accounts receivable	\$ 464	\$ 499
Notes receivable from joint ventures	53	-
	\$ 517	\$ 499

5. SEGREGATED CASH AND INVESTMENTS

The Corporation has segregated certain cash and investments for the sole purpose of managing cash flows relating to the liability for some of its employee future benefits as follows:

As at December 31 (in millions of dollars)	2002	2001
Employee termination benefits	\$ 528	\$ 497
Other retirement dental and death benefits	307	204
	\$ 835	\$ 701

These investments are held in investment grade fixed income securities with maturities ranging from 1 month to 5 years. Investments in bonds are valued at amortized cost whereas investments in money market instruments are carried at cost. The time weighted average rate of return on the investments held as at December 31, 2002 is 6.0% (2001 - 6.3%) for employee termination benefits and 4.5% (2001 - 4.7%) for other retirement dental and death benefits.

The fair value of segregated cash and investments as at December 31, 2002 is \$540 million (2001 - \$512 million) for employee termination benefits and \$309 million (2001 - \$206 million) for other retirement dental and death benefits. The fair value of the investments represents their market value.

6. NOTE RECEIVABLE

As at December 31 (in millions of dollars)	2002	2001
Note from the Government of Canada with effective interest rate of 6% relating to the accrued benefit obligations assumed by Canada Post Corporation as of October 1, 2000, for plans providing dental and death benefits to employees after retirement	\$ 18	\$ 80
Less current portion	18	24
	\$ -	\$ 56

7. PROPERTY, PLANT AND EQUIPMENT

As at December 31
(in millions of dollars)

As at December 31					2002	2001
(in millions of dollars)						
	Cost	Accumulated amortization	Net	Net		
Land	\$ 250	\$ -	\$ 250	\$ 245		
Buildings	1,473	832	641	454		
Leasehold improvements	132	84	48	66		
Plant equipment	785	546	239	265		
Vehicles	131	77	54	46		
Sales counters, office furniture and equipment and software	589	424	165	270		
Office equipment and software under capital leases	58	6	52	10		
Other equipment	582	374	208	215		
Assets under development	30	-	30	2		
	\$ 4,030	\$ 2,343	\$ 1,687	\$ 1,573		

8. INCOME TAXES

The nature and tax effect of the temporary differences, unused tax losses and income tax reductions giving rise to future income tax assets and future income tax liabilities are as follows:

As at December 31
(in millions of dollars)

	2002	2001
Future income tax assets (liabilities)		
Property, plant and equipment	\$ 46	\$ 88
Accounts payable and accrued liabilities	25	12
Salaries and benefits payable	27	27
Deferred revenue	8	4
Obligations under capital leases	34	-
Employee future benefit liability	70	41
Employer pension funding	-	(30)
Unused tax losses	2	2
Other	(3)	(1)
Less current portion	209	143
	47	11
Future income taxes	\$ 162	\$ 132

8. INCOME TAXES (continued)

Deductible temporary differences for which no future income tax assets have been recognized amount to \$1,598 million (2001 - \$1,599 million) and relate mainly to the employee future benefit liability. These differences are not expected to reverse in the foreseeable future.

The major components of the income tax expense are as follows:

Period ended December 31 (in millions of dollars)	2002 (12 months)	2001 (9 months)
Current income tax expense	\$ 111	\$ 52
Future income tax expense (benefit) relating to the origination and reversal of temporary differences	(57)	11
Future income tax expense resulting from reduction in tax rate	2	2
Income taxes	\$ 56	\$ 65

The explanation of the relationship between the income tax expense and the income before income taxes follows:

Period ended December 31 (in millions of dollars)	2002 (12 months)	2001 (9 months)
Income before income taxes	\$ 127	\$ 132
Federal tax at the applicable tax rate of 39% (2001 - 38%)	\$ 49	\$ 50
Provincial tax	4	3
Large corporation tax	3	3
Tax effect of expenses that are not deductible for income tax purposes	2	6
Other	(4)	1
Decrease in future income taxes resulting from reduction in tax rate	2	2
Income taxes	\$ 56	\$ 65

9. OTHER ASSETS

As at December 31
(in millions of dollars)

	2002	2001
Goodwill, net of accumulated amortization	\$ 133	\$ 142
Intangible assets, net of accumulated amortization	17	16
Employee future benefit asset	128	76
Other	5	23
	\$ 283	\$ 257

10. LONG-TERM DEBT

As at December 31
(in millions of dollars)

	2002	2001
Non-redeemable bonds maturing March 2016, interest at 10.35%	\$ 55	\$ 55
Obligations under capital leases expiring at various dates through December 2006	62	8
Less current portion	117 18	63 2
	\$ 99	\$ 61

Interest expense on long-term debt was \$6 million (2001 - \$4 million).

The future minimum lease payments under capital leases are as follows:

(in millions of dollars)

2003	\$ 21
2004	18
2005	17
2006	12
Total minimum lease payments	68
Less amount representing interest at 5.25% and 9.75%	6
Balance of the obligations	\$ 62

The fair value of the non-redeemable bonds maturing March 2016 is based on rates currently available to the Corporation for debt with similar terms and maturity. Their fair value as at December 31, 2002 is \$63 million (2001 - \$82 million).

11. EMPLOYEE FUTURE BENEFITS

Information about The Canada Post Group's defined benefit plans, in aggregate, is as follows:

Period ended December 31 (in millions of dollars)	2002 (12 months)		2001 (9 months)	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligations				
Balance, beginning of period	\$ 8,094	\$ 1,876	\$ 7,559	\$ 1,755
Increase in liability assumed under pension reform	23	-	-	-
Current service cost	429	89	325	64
Interest cost	490	112	340	76
Benefits paid	(73)	(73)	(32)	(47)
Actuarial (gains) losses	(926)	277	(120)	24
Past service cost	28	-	-	-
Plan amendments	-	(6)	-	-
Business acquisition	-	-	22	4
Curtailment	-	7	-	-
Balance, end of period	8,065	2,282	8,094	1,876
Plan assets				
Fair value, beginning of period	8,174	-	7,660	-
Decrease in amount receivable from the Government of Canada	(79)	-	-	-
Actual return on plan assets	(555)	-	255	-
Employer contributions	270	-	194	-
Employees' contributions	123	-	69	-
Benefits paid	(73)	-	(32)	-
Business acquisition	-	-	28	-
Fair value, end of period	7,860	-	8,174	-
Funded status - plan surplus (deficit)				
Unamortized net actuarial loss	(205)	(2,282)	80	(1,876)
Unamortized past service costs	524	421	311	146
Unamortized transitional obligations	8	(6)	8	-
Unamortized funding excess	-	22	-	25
	(199)	-	(323)	-
Employee future benefit asset (liability)	\$ 128	\$ (1,845)	\$ 76	\$ (1,705)
Amounts recognized in consolidated balance sheet consist of:				
Other assets	\$ 128	\$ -	\$ 76	\$ -
Employee future benefit liability	\$ -	\$ (1,845)	\$ -	\$ (1,705)

11. EMPLOYEE FUTURE BENEFITS (continued)

Included in the above accrued benefit obligations and fair value of plan assets at period end are the following amounts in respect of plans that are not fully funded:

As at December 31 (in millions of dollars)	2002		2001	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligations	\$ 7,965	\$ 2,282	\$ 94	\$ 1,876
Plan assets	7,597	-	78	-
Funded status - plan deficit	\$ (268)	\$ (2,282)	\$ (16)	\$ (1,876)

As a result of the federal public sector pension reform, Canada Post Corporation had assumed pension benefit obligations and recorded pension benefit plan assets based on actuarial valuations prepared using preliminary data as of September 30, 2000. During the period, new actuarial valuations were performed using final data as of that date. In addition, the Office of the Superintendent of Financial Institutions calculated the final pension benefit plan asset transfer. Following this finalization of data, adjustments were made which decreased the amount receivable from the Government of Canada by \$79 million, increased the liability assumed under the pension reform by \$23 million and reduced the unamortized funding excess by a total of \$102 million.

The significant actuarial assumptions adopted in measuring The Canada Post Group's accrued benefit obligations are as follows:

As at December 31	2002		2001	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Consumer price index (CPI)	3.0%	3.0%	2.5%	2.5%
Discount rate	6.5% to 6.9%	5.9% to 6.9%	6.1% to 7.0%	5.4% to 6.1%
Expected long-term rate of return on plan assets	CPI+3.1% to 5.0%	N/A	CPI+3.6% to 6.0%	N/A
Long-term rate of compensation increase	CPI to CPI+0.5%	CPI+0.5% to 1.0%	CPI+0.5% to 1.0%	CPI+1.0% to 1.5%

For purpose of measuring Canada Post Corporation's health care benefits, a medical drug trend of 11% was assumed for 2003, decreasing gradually to CPI+2% for 2014 and remaining at that level thereafter. For Progistix, a health care escalation rate of 9% was assumed for December 2002, decreasing gradually to CPI+2% for 2010.

11. EMPLOYEE FUTURE BENEFITS (continued)

The Canada Post Group's net employee future benefit plan expense is as follows:

Period ended December 31	2002 (12 months)			2001 (9 months)		
(in millions of dollars)	Pension benefit plans	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
Current and past service cost, net of employee contributions	\$ 334	\$ 89	\$ 423	\$ 256	\$ 64	\$ 320
Interest cost	490	112	602	340	76	416
Expected return on plan assets	(584)	-	(584)	(408)	-	(408)
Amortization of net actuarial loss	-	2	2	-	-	-
Amortization of past service costs	-	-	-	1	-	1
Amortization of transitional obligations	-	3	3	-	3	3
Amortization of funding excess	(22)	-	(22)	(23)	-	(23)
Curtailment loss	-	7	7	-	-	-
Defined benefit plan expense	\$ 218	\$ 213	\$ 431	\$ 166	\$ 143	\$ 309
Defined contribution plan expense	-	-	1	-	-	1
Employee future benefit plan expense	-	-	432	-	-	310
Transitional support received from the Government of Canada	-	-	(152)	-	-	(112)
Net employee future benefit plan expense	\$ 280			\$ 198		

Effective January 1, 2004, Canada Post Corporation's management and exempt employees will no longer earn further benefit entitlements for years of service under their termination benefit plan, resulting in a curtailment loss. The value of the termination benefits for all management and exempt employees will be frozen at the employee's years of continuous service as of December 31, 2003. The management and exempt employees will have a choice to either receive the cash value of their accrued termination benefits based on their salary as of that date with payment in 2004 or defer the payment until retirement, at which time the accrued termination benefit obligation would be adjusted to reflect the salary at the time of retirement. A loss has been recognized in the current period to reflect the impact of the curtailment, which also includes improvement to the plan's benefit formula. A settlement loss will be recognized in 2004 and thereafter at the time the individual obligation is discharged. In addition, as of March 1, 2003, the employee termination benefit plan will be closed to new participants in the management and exempt category.

12. CASH FLOW INFORMATION

Period ended December 31

(in millions of dollars)

	2002 (12 months)	2001 (9 months)
Change in non-cash working capital, net of effects of business acquisitions		
(Increase) decrease in accounts receivable	\$ 41	\$ (128)
Increase (decrease) in accounts payable and accrued liabilities	121	(125)
Increase (decrease) in salaries and benefits payable	28	(30)
(Increase) decrease in other non-cash working capital	(4)	11
Realization of future income tax assets	(11)	63
	\$ 175	\$ (209)
Supplementary information		
Interest paid	\$ (8)	\$ (5)
Income tax paid	\$ (93)	\$ (70)
Transitional support received from the Government of Canada		
Reimbursement of pension reform incremental costs	\$ 152	\$ 112
Installments on note receivable	62	52
Interest on note receivable	3	5
	\$ 217	\$ 169
Non-cash investing and financing activities		
Note receivable applied against purchase of a building, net of lease inducements	\$ 11	\$ -
Note receivable arising from transfer of software to a joint venture	\$ (47)	\$ -
Obligation for software acquired under capital lease from a joint venture	\$ 55	\$ -
Obligations for office equipment and software acquired under capital leases	\$ -	\$ 10

13. CONTRIBUTED CAPITAL

The Canada Post Corporation Act provides for the establishment of a share capital structure. The Corporation is authorized to issue shares to the Government of Canada based on the net asset value of the Corporation on the date of the first issue of shares, as determined by the Board of Directors, with the approval of the Treasury Board. No such shares have been issued.

14. CONTINGENCIES

(a) Two complaints have been filed with the Canadian Human Rights Commission alleging discrimination by Canada Post Corporation concerning work of equal value. One complaint was filed by the Public Service Alliance of Canada in 1983, retroactive to October 16, 1981, when Canada Post Corporation became a Crown corporation. The Tribunal's hearings are nearing completion with final arguments scheduled for the spring-summer of 2003 with a decision following sometime thereafter. Another complaint was filed by the Canadian Postmasters and Assistants Association initially in December 1982, seeking retroactivity to October 16, 1981. This complaint was refilled in November 1992 and the Commission has commenced its investigation on a preliminary issue. The outcome of these complaints is not currently determinable. Settlement, if any, arising from resolution of these matters, is presently planned to be recovered in future postal rates (as determined in accordance with the Canada Post Corporation Act) and/or from the Government of Canada.

(b) The Corporation is involved in various claims and litigation in the normal course of business for which provisions have been made to the extent determinable.

(c) Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in future years cannot reasonably be determined. Payments of sick leave benefits are included in current operations.

15. COMMITMENTS

The Canada Post Group's future minimum payments with respect to computing and communications utility services, as well as facilities and other operating leases with terms in excess of one year, are as follows:

(In millions of dollars)	
2003	\$ 257
2004	187
2005	172
2006	140
2007	127
2008 and thereafter	561
	\$ 1,444

16. RELATED-PARTY TRANSACTIONS

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements.

- (a) **Payments on behalf of postal users** • Where Government policy requires the Corporation to provide services at rates less than cost for concessionary services such as Government free mail, literature for the blind and Northern Air Stage Services, the Government of Canada compensates the Corporation for foregone postage revenue from those sources. Compensation amounting to \$49 million (2001 – \$33 million) is included in revenue from operations.
- (b) **Real property** • The Corporation has incurred net operating costs of \$8 million (2001 – \$7 million) in respect of real property agreements with Public Works and Government Services Canada.
- (c) **Other** • The Corporation has other transactions with the Government of Canada, its agencies and other Crown corporations in the normal course of business at normal commercial prices and terms. These transactions are recorded at the exchange amount.

As a result of related-party transactions, the amounts of accounts receivable and accounts payable due from and to these parties are \$4 million (2001 – \$5 million) and \$27 million (2001 – \$37 million) respectively.

17. FINANCIAL INSTRUMENTS – OTHER

- (a) **Fair values** • The amounts reported in the consolidated balance sheet for all other financial instruments approximate their fair values.
- (b) **Concentration of credit risk** • The Corporation does not believe it is subject to any significant concentration of credit risk.

The amount reported in the consolidated balance sheet for accounts payable and accrued liabilities includes the impact of netting \$408 million of accounts payable to foreign postal administrations against \$387 million of accounts receivable from foreign postal administrations (\$330 million of accounts payable and \$287 million of accounts receivable in 2001), which is the normal basis used for these international settlements.

18. SEGMENTED INFORMATION

The Corporation manages its operations and accordingly determines its segments on the basis of the legal entities. Three reportable segments have been identified: Canada Post Corporation, Purolator and Logistics.

The Canada Post Corporation segment has four main product/service lines: communications, physical distribution, advertising and publications. Communications consist of Lettermail and electronic hybrid services. Physical distribution consists of courier, expedited delivery and parcels. Advertising consists of admail. Publications consist of domestic and international newspapers and periodicals. The Purolator segment derives its revenues exclusively from physical distribution. The Logistics segment provides delivery and logistics services.

18. SEGMENTED INFORMATION (continued)

Segments below the quantitative thresholds, for determining reportable segments, are combined and disclosed in the "all other" category. Their revenues are attributable to information technology services, web-based services and consulting services.

The accounting policies of the segments are the same as those described in the significant accounting policies (note 2).

Transactions occur between the segments at normal commercial prices and terms comparable to those given to other customers and suppliers and without subsidy between the segments. On a consolidated basis, no individual external customer's purchases account for more than 10% of total revenues.

Period ended December 31, 2002						
(in millions of dollars)						
	Canada Post Corporation	Purulator	Logistics	All Other	Elimination of Intersegment	The Canada Post Group
	(12 months)					
Revenue from external customers	\$ 5,018	\$ 1,029	\$ 99	\$ 8	\$ -	\$ 6,154
Intersegment revenue	12	21	11	61	(105)	-
Revenue from operations	\$ 5,030	\$ 1,050	\$ 110	\$ 69	\$ (105)	\$ 6,154
Income (loss) before the undernoted items	\$ 311	\$ 65	\$ 9	\$ (1)	\$ -	\$ 384
Amortization	(190)	(22)	(7)	(2)	-	(221)
Investment and other income	25	(1)	-	-	(12)	12
Interest and other expense	(38)	(15)	-	-	12	(41)
Income (loss) before unallocated amounts and adjustment	\$ 108	\$ 27	\$ 2	\$ (3)	\$ -	134
Unallocated amounts:						
Amortization						(5)
Income taxes						(56)
Adjustment to start-up costs in consolidation						(2)
Net income						\$ 71
Assets before unallocated amount and adjustment	\$ 4,184	\$ 345	\$ 68	\$ 126	\$ (624)	\$ 4,099
Unallocated amount:						
Goodwill						2
Adjustment to start-up costs in consolidation						(2)
Total assets						\$ 4,099
Acquisition of property, plant and equipment	\$ 403	\$ 33	\$ 10	\$ 52	\$ (99)	\$ 399

18. SEGMENTED INFORMATION (continued)

Period ended December 31, 2001

(in millions of dollars)

(9 months)

	Canada Post Corporation	Purolator	Logistics	All Other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	\$ 3,612	\$ 775	\$ 46	\$ 8	\$ -	\$ 4,441
Intersegment revenue	6	16	-	-	(22)	-
Revenue from operations	\$ 3,618	\$ 791	\$ 46	\$ 8	\$ (22)	\$ 4,441
Income (loss) before the undernoted items	\$ 215	\$ 51	\$ 3	\$ (5)	\$ -	\$ 264
Amortization	(121)	(16)	(3)	-	-	(140)
Investment and other income	30	-	-	-	(11)	19
Interest and other expense	(4)	(13)	-	(1)	11	(7)
Income (loss) before unallocated amounts	\$ 120	\$ 22	\$ -	\$ (6)	\$ -	136
Unallocated amounts:						
Amortization						(4)
Income taxes						(65)
Net income						\$ 67
Assets before unallocated amount	\$ 3,633	\$ 350	\$ 56	\$ 6	\$ (375)	\$ 3,670
Unallocated amount:						
Goodwill						7
Total assets						\$ 3,677
Acquisition of property, plant and equipment	\$ 187	\$ 26	\$ 2	\$ -	\$ -	\$ 215



**Canadian
Air
Transport
Security
Authority**



MANAGEMENT'S RESPONSIBILITY STATEMENT

CATSA's management is responsible for the preparation and integrity of the financial statements contained in this Annual Report. These statements, recommended by the Audit Committee and approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. Information contained in the Annual Report is consistent with that contained in the financial statements.

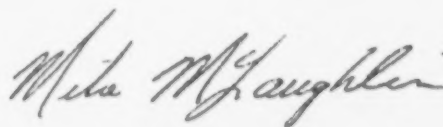
To fulfill its responsibilities, the Authority maintains systems of internal control, policies and procedures to provide reasonable assurance that relevant and reliable financial information is produced. In addition, these systems of control exist to protect the assets of the Authority.

The Audit Committee of the Board of Directors, consisting solely of outside Directors, frequently meets with its external auditor — the Office of the Auditor General — and with management to ensure that the assets of the organization are properly protected, to review financial information produced and to review the internal control of the Authority.

The Authority's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon.



Jacques Duchesneau, C.M.
President and Chief Executive Officer



Michael J. McLaughlin, C.M.A.
Vice President and Chief Financial Officer

May 16, 2003

AUDITOR'S REPORT



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of the Canadian Air Transport Security Authority as at March 31, 2003 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Air Transport Security Authority Act* and the by-laws of the Authority.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 16, 2003

Canadian Air Transport Security Authority

Balance Sheet

As at March 31, 2003

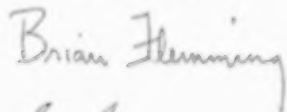
(Thousands of dollars)

	2003
Assets	
Current	
Cash	\$ 31,675
Accounts receivable (note 4)	45,437
Spare parts inventory	4,398
Prepaid expenses (note 5)	3,718
	85,228
Capital assets (note 6)	110,616
	\$ 195,844
Liabilities	
Current	
Accounts payable and accrued liabilities	\$ 59,568
Long-term	
Deferred capital funding (note 7)	127,320
Employee future benefits (note 8)	165
	127,485
Equity	8,791
	\$ 195,844

Commitments (note 10)

Approved on behalf of the Board of Directors

Brian Flemming
Chairman



Murray Sigler
Director



The accompanying notes form an integral part of the financial statements.

Canadian Air Transport Security Authority

Statement of Operations and Equity

For the year ended March 31, 2003

(Thousands of dollars)

	2003
Expenses	
Pre-board screening	\$ 125,698
Air security related policing programs and hold bag screening	37,170
Administration	11,976
Screening of non-passengers	39
Enhanced restricted air pass system	39
	174,922
Revenues	
Interest and other revenue	910
Net cost of operations before government funding	174,012
Government funding	
Parliamentary appropriations for operating expenditures (note 3)	170,261
Amortization of deferred capital funding (note 7)	9,866
	180,127
Net results of operations for the year	\$ 6,115
Contributions from Transport Canada (note 11)	2,676
Equity – end of year	\$ 8,791

The accompanying notes form an integral part of the financial statements.

Canadian Air Transport Security Authority

Statement of Cash Flows

For the year ended March 31, 2003

(Thousands of dollars)

	2003
Cash flows from (used in)	
Operating activities	
Net results of operations for the year	\$ 6,115
Items not affecting cash	
Amortization of capital assets	9,866
Amortization of deferred capital funding	(9,866)
Employee future benefits	165
Net change in non-cash working capital balances (note 12)	12,206
	18,486
Financing activities	
Parliamentary appropriations	
Capital funding (note 3)	89,216
	89,216
Investing activity	
Acquisition of capital assets	(76,027)
	(76,027)
Increase in cash	31,675
Cash - End of year	\$ 31,675

Supplementary cash flow information: Interest received for the year ended March 31, 2003 amount to \$901.

The accompanying notes form an integral part of the financial statements.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

1. Authority, objects, and programs

The Canadian Air Transport Security Authority (CATSA) was established under the *Canadian Air Transport Security Act* (the "CATSA" Act), S.C. 2002 c.9.s.2 which came into force on April 1, 2002.

The Government's objectives in the establishment of CATSA were to enhance air transport security, improve public confidence in the air transport security system, increase Government visibility in air transport security, provide a consistent approach across the system, integrate air transport security services and deliver services in an efficient and effective manner, having due regard to the interest of the travelling public. In assuming responsibility for certain air transport security functions previously undertaken by the private sector, the Government of Canada made it clear that CATSA's actions were to be driven by security concerns, not economic considerations.

CATSA's primary objective is to further the Government of Canada's objectives through the effective delivery of its mandated responsibilities. CATSA's responsibilities under the CATSA Act fall into five major areas:

1. Pre-Board Screening of Passengers and their carry-on baggage;
2. Hold Bag Screening;
3. Air security related Policing Programs
4. Non-Passenger Screening at major airports
5. Enhanced Restricted Area Pass system for major Canadian airports.

Responsibilities relating to non-passenger screening at major airports and enhanced restricted area pass system for major Canadian airports were assigned to CATSA on November 5, 2002 pursuant to sub-section 6(2) on the CATSA Act, which allows the Minister of Transport to assign other air transport security functions to CATSA. Initial planning for these responsibilities occurred during the period from November 2002 to March 2003, with implementation expenses primarily starting after April 1, 2003.

CATSA is not subject to the *Income Tax Act*.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

2. Significant accounting policies

The financial statements of CATSA have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) Spare parts inventory

Spare parts are valued at the lower of weighted average cost or replacement cost.

(b) Capital assets

Capital assets are recorded at cost, less accumulated amortization. The cost of assets includes shipping, and installation costs. Amortization is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Pre-board screening equipment	7 years
Hold bag screening equipment	7 years
Computers and software	3 years
Office furniture and equipment	5 years

Leasehold improvements are capitalized and amortized on a straight-line basis over the life of the related leases.

Amounts included in work in progress are transferred to the appropriate capital asset classification upon completion, and are then amortized according to the above stated policy.

(c) Employee benefits

CATSA maintains two defined benefit pension plans, a registered pension plan (RPP) and a supplementary pension plan (SPP), to provide retirement benefits to its employees. Pension costs are actuarially determined using the projected benefit method, prorated on service and managements best estimate assumptions. The latest valuation was completed by an independent actuary as at December 31, 2002. The discount rate used to determine the accrued benefit obligation was based on market rates for long term high quality bonds. Pension fund assets are valued at fair value for the purpose of calculating the expected return on plan assets.

The net pension plan expense consists of the actuarially determined pension benefits for the current year's service, imputed interest on projected pension obligations net of interest earned on pension assets and the amortization of actuarial gains or losses and other items over the average remaining service period of active employees expected to receive benefits under the plan. Actuarial gains or losses are amortized only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

The cumulative difference between the pension expense and funding contributions is reflected in the balance sheet as employee future benefit.

CATSA also provides other non-pension post-retirement benefits for employees including vacation pay, short and long term disability, and post-retirement health care, dental care, and life insurance. With the exception of vacation pay, the cost of these benefits is accrued for as earned by the employees and is actuarially determined in a manner consistent with the methods used for the pension benefits. Vacation pay is calculated at the salary levels in effect at the end of the year for all unused vacation pay benefits accruing to employees.

(d) Parliamentary appropriations and deferred capital funding

CATSA's primary source of funding is appropriations received from the Government of Canada. Parliamentary appropriations for operating expenditures are recorded in the statement of operations and equity. Parliamentary appropriations for capital expenditures are recorded as deferred capital funding in the balance sheet, and are amortized on the same basis and over the same periods as the related capital assets. Upon disposition of funded depreciable capital, CATSA recognizes into income all remaining deferred capital funding related to these capital assets.

(e) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates in effect at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Exchange gains resulting from the translation of foreign currency balances are included in other revenue. Exchange losses resulting from the translation of foreign currency balances are included in administration expenses.

(f) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimated useful life of capital assets and employee future benefits are the most significant items where estimates are used. Actual results could differ from these estimates.

(g) Security considerations

In the interest of security at airports in Canada and pursuant to Section 32 of the CATSA Act, information relating to air security related policing programs is not made public. To achieve this, the statement of operations combined the expenses relating to hold bag screening and air security related policing programs.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

3. Parliamentary appropriations

CATSA's primary source of funding is appropriations received from the Government of Canada.

Parliamentary appropriations approved and amounts utilized by CATSA during the year are as follows:

Use of appropriations

Appropriations Approved

Parliamentary appropriation approved

as per CATSA Act

\$ 340,000

Re-profiled amount approved for subsequent

years as per 2002-2003 Corporate Plan

(16,622)

Re-profiled amount approved for subsequent

years as per 2003-2004 Corporate Plan

(24,521)

\$ 298,857

Appropriations Unused

Unused portion of Parliamentary appropriation

(39,380)

Appropriations Utilized

Operating funding

170,261

Capital funding

89,216

\$ 259,477

4. Accounts receivable

Accounts receivable are comprised of:

Parliamentary appropriations

\$ 40,477

GST

2,396

Other

2,564

\$ 45,437

5. Prepaid expenses

Prepaid expenses are comprised of:

Deposit on purchase of capital assets

\$ 3,515

Other

203

\$ 3,718

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

6. Capital assets

	Cost	Accumulated Amortization	Net book value
Preboard screening equipment	\$ 30,235	\$ 4,220	\$ 26,015
Hold bag screening equipment	72,062	4,379	67,683
Computers and software	7,171	1,073	6,098
Office furniture and equipment	1,630	98	1,532
Leasehold improvements	2,868	96	2,772
Work in progress	6,516	—	6,516
	\$ 120,482	\$ 9,866	\$ 110,616

On April 1, 2002 Transport Canada transferred screening equipment with a net book value of \$47,970 to CATSA for a purchase price of \$1. The net book value of these assets has been recorded as deferred capital funding and will be amortized at the same rate as the screening equipment.

7. Deferred capital funding

Parliamentary appropriation to finance the acquisition of capital assets	\$ 89,216
Transfer of screening equipment from Transport Canada at net book value	47,970
Amortization of deferred capital funding	(9,866)
Balance, end of year	\$ 127,320

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

8. Employee future benefits

CATSA maintains defined benefit plans providing pension and other retirement and post-employment benefits to its employees. Pension benefits are based on the average of the best 5 consecutive years of pensionable salary. Employees are required to contribute a percentage of their pensionable salary to the plan, with CATSA providing the balance of funding as required, based on actuarial valuations, with payments to the fund being made monthly.

Based on the actuarial determination valuation of the pension plans and other benefit plans as at December 31, 2002, the status of the plans are as follows:

	Pension (RPP and SRP)	Other Benefit Plans
Accrued Benefit Obligation		
Benefit obligation	\$ —	\$ 436
Service cost	180	38
Interest cost	68	6
Transfer in	5,227	—
Prior service cost	811	—
Actuarial loss	353	58
Accrued benefit obligation at December 31, 2002	\$ 6,639	\$ 538
Plan Assets		
Expected return on plan assets	\$ 52	\$ —
Investment experience gain	4	—
Actual return on plan assets	56	—
CATSA Contributions	—	—
Plan participants' contributions	—	—
Benefits paid	—	—
Transfer receivable	5,227	—
Fair value of plan assets at December 31, 2002	\$ 5,283	\$ —
Reconciliation with Funded Position		
Accrued benefit obligation	\$ 6,639	\$ 538
Assets	5,283	—
Surplus/(unfunded liabilities)	(1,356)	(538)
4 th quarter contribution adjustment	88	—
	(1,268)	(538)
Unamortized prior service cost	804	430
Unamortized net loss	349	58
Accrued benefit liability at March 31, 2003	\$ (115)	\$ (50)

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

Since CATSA made contributions to the fund between the measurement date and the fiscal year-end date, an adjustment must be made for such contributions in the reconciliation of the funded status of the plan provided in the notes.

Components of Expense

Service cost	\$ 180	\$ 38
Interest cost	68	6
Expected return on plan assets	(52)	—
Amortization prior service cost	7	6
Amortization experience gain (loss)	—	—
Pension expense/(income) at March 31, 2003	\$ 203	\$ 50

The significant actuarial assumptions adopted in measuring the company's accrued benefit obligations are as follows:

	Pensions	Other benefit plans
Discount rate	7.00%	7.00%
Expected return on plan assets	6.75%	n/a
Inflation	3.00%	3.00%
Long-term rate of compensation increase (including inflation and promotion)	4.75%	4.75%

Employees transferring from the Federal Public Service will be given the option to transfer pension benefits and benefit obligations to CATSA's pension plan once a Reciprocal Transfer Agreement is in place, or to leave them with the Public Service Superannuation Fund until retirement. Management has assumed that all entitled employees will transfer such pension credits. It is estimated that the transfer of pension benefits will result in an unfunded liability of \$811 based on estimated plan obligations of \$6,038 and estimated plan assets of \$5,227.

The unfunded liability will be amortized over the expected average remaining service lifetime of the related active employees.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

9. Financial instruments

CATSA's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities. Management believes the carrying values of the latter two financial instruments approximate their fair value, due to their short term to maturity.

10. Commitments

(a) Operating leases

CATSA is committed under operating leases for the rental of equipment and office space. Minimum annual lease payments under the terms of these leases are as follows:

Year ending March 31

2004	\$	1,816
2005		1,723
2006		1,609
2007		1,673
2008		1,600
2009 to 2012		6,003
	\$	14,424

(b) Other Contractual obligations

CATSA is committed under various contracts for the next three years for:

Equipment purchases,
Screening services, and
Equipment maintenance.

Year ending March 31

2004	\$	106,255
2005		4,122
2006		30
	\$	110,407

For the reasons as disclosed in note 2(g), commitments relating to air security related policing programs are not disclosed in this note.

Canadian Air Transport Security Authority

Notes to the financial statements

For the year ended March 31, 2003

(Thousands of dollars)

11. Related party transactions

CATSA is related to Her Majesty the Crown in the right of Canada including the Government of Canada, its departments and other agencies. CATSA enters into transactions at market value with these entities in the normal course of operations, and pursuant to authority given in the CATSA Act.

CATSA had the following transactions with related parties for the year ended March 31, 2003:

- (a) Her Majesty as represented by the Royal Canadian Mounted Police (RCMP). For reasons as disclosed in note 2(g), expenses relating to air security related policing programs are not disclosed in this note.
- (b) Her Majesty as represented by Consulting and Audit Canada (CAC). CAC provides invoice verification services for the Pre-board screening program. Expenses during the year amounted to \$670, with \$259 as an outstanding balance.
- (c) Her Majesty as represented by the Department of Justice. The Department of Justice seconded employees through the Interchange program. Expenses during the year amounted to \$44.
- (d) Her Majesty as represented by the Public Works and Government Services Canada (PWGSC). PWGSC provides translation services to CATSA, as well as internetworking services. Expenses during the year amounted to \$291, with \$162 as an outstanding balance.
- (e) Her Majesty as represented by Transport Canada. As disclosed in note 6, Transport Canada transferred capital assets amounting to \$47,970. Transport Canada also transferred spare parts and consumables with a net book value of \$2,086 and \$590 respectively, for a purchase price of zero dollars. This is reflected as a contribution to equity.
In addition, Transport Canada seconded employees through the Interchange program, provided contracting services, and provided "Fly smart" brochures. Expenses during the year amounted to \$694, with \$151 as an outstanding balance.

12. Net changes in non-cash working capital balances

	2003
Accounts receivable	\$ (45,426)
Spare parts inventory	(2,312)
Prepaid expenses	387
Accounts payable and accrued liabilities	59,568
	\$ 12,206

As disclosed in note 4, the difference of \$3,516 in prepaid expenses relates to a deposit on capital assets. This amount is included in Parliamentary appropriations utilized for capital funding. Furthermore, as disclosed in note 11(e) consumables transferred from Transport Canada were initially recorded as prepaid expenses.

**Canadian
Broadcasting
Corporation**



Management's Responsibility for the Consolidated Financial Statements

The consolidated financial statements and all other information presented in the Annual Report are the responsibility of management and have been reviewed and approved by the Board of Directors of the Corporation. These consolidated financial statements, which include amounts based on management's best estimates as determined through experience and judgment, have been properly prepared within reasonable limits of materiality and are in accordance with Canadian generally accepted accounting principles.

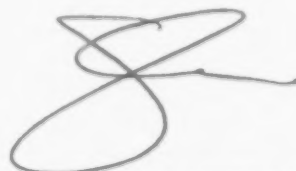
Management of the Corporation maintains books of account, records, financial and management control, and information systems, which are designed to provide reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that the operations of the Corporation and of its wholly owned subsidiary are carried out effectively and that transactions are in accordance with the *Broadcasting Act* and the by-laws of the Corporation and with the charter and the by-laws of its wholly owned subsidiary.

The Corporation's Internal Auditor has the responsibility for assessing the Corporation's systems, procedures and practices. The Auditor General of Canada conducts an independent audit of the annual consolidated financial statements and reports on her audit to the Canadian Broadcasting Corporation and the Minister of Canadian Heritage.

The Board of Directors' Audit Committee, which consists of six members, none of whom is an officer of the Corporation, reviews and advises the Board on the consolidated financial statements and the Auditor General's report thereto. The Audit Committee oversees the activities of Internal Audit and meets with management, the Internal Auditor and the Auditor General on a regular basis to discuss the financial reporting process as well as auditing, accounting and reporting issues.

Ottawa, Canada
June 4, 2003

President and CEO



Vice-President and Chief Financial Officer



Auditor's Report

To the Board of Directors of the Canadian Broadcasting Corporation
and the Minister of Canadian Heritage

I have audited the consolidated balance sheet of the Canadian Broadcasting Corporation as at March 31, 2003 and the consolidated statements of operations and equity and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Broadcasting Act, I report that, in my opinion, these principles have been applied, except for the change in the method of accounting for income taxes as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part III of the Broadcasting Act and the by-laws of the Corporation and the charter and the by-laws of its wholly owned subsidiary.



Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
June 4, 2003

Consolidated Balance Sheet

As at March 31

ASSETS

Current

Cash, cash equivalents and short-term investments (Note 18)	192,180	154,730
Accounts receivable	138,147	188,195
Program inventory	92,176	102,541
Prepaid expenses	42,134	37,814
	464,637	483,280

Capital assets (Note 8)

Deferred charges and long-term investments

Pension Plans asset (Note 12)

2003
2002
(thousands of dollars)

1,007,448	1,016,465
35,262	18,290
49,005	25,495
1,556,352	1,543,530

LIABILITIES

Current

Accounts payable and accrued liabilities	157,381	167,215
Employee-related liabilities (Note 12)	136,715	128,091
Obligations under capital leases (Note 13)	5,503	5,111
	299,599	300,417

Long-term

Employee-related liabilities (Note 12)	105,562	97,578
Obligations under capital leases (Note 13)	361,523	367,026
Deferred capital funding (Note 11)	641,517	654,457
	1,108,602	1,119,061

EQUITY

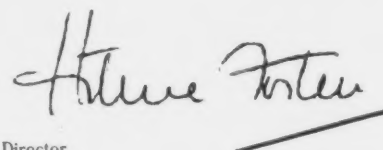
Equity

148,151	124,052
1,556,352	1,543,530

Commitments and contingencies (Notes 14 and 15)

The accompanying notes form an integral part of the financial statements.

Approved on behalf of the Board of Directors:



Director

Director

Consolidated Statement of Operations and Equity

For the year ended March 31

	2003	2002
	(thousands of dollars)	
REVENUE		
Advertising and program sales	284,410	319,257
Specialty Services (Note 6)	123,271	117,722
Miscellaneous	73,154	82,383
	<u>480,835</u>	<u>519,362</u>
EXPENSE		
Television and Radio service costs	1,197,501	1,150,557
Specialty Services (Note 6)	117,277	104,076
Transmission, distribution and collection	59,176	61,850
Radio Canada International	14,470	16,626
Payments to private stations	11,140	16,760
Corporate Management	15,461	15,402
Amortisation of capital assets	117,695	130,806
	<u>1,532,720</u>	<u>1,496,077</u>
Operating loss before Government funding and taxes	<u>(1,051,885)</u>	<u>(976,715)</u>
Government funding		
Parliamentary appropriation for operating expenditures (Note 4)	937,432	840,404
Funding reserved for Radio Canada International (Note 5)	15,501	15,418
Amortisation of deferred capital funding (Note 11)	118,049	130,953
	<u>1,070,982</u>	<u>986,775</u>
Net results before taxes	19,097	10,060
Recovery of income and large corporations taxes (Note 7)	(1,002)	(1,332)
Net results for the year	20,099	11,392
Equity, beginning of year	124,052	108,660
Working Capital Funding (Note 4)	4,000	4,000
Equity, end of year	<u>148,151</u>	<u>124,052</u>

The accompanying notes form an integral part of the financial statements.



Consolidated Balance Sheet

As at March 31

2003

(thousands of dollars)

ASSETS**Current**

Cash, cash equivalents and short-term investments (Note 18)	192,180	154,730
Accounts receivable	138,147	188,195
Program inventory	92,176	102,541
Prepaid expenses	42,134	37,814
	464,637	483,280

Capital assets (Note 8)	1,007,448	1,016,465
Deferred charges and long-term investments	35,262	18,290
Pension Plans asset (Note 12)	49,005	25,495
	1,556,352	1,543,530

LIABILITIES**Current**

Accounts payable and accrued liabilities	157,381	167,215
Employee-related liabilities (Note 12)	136,715	128,091
Obligations under capital leases (Note 13)	5,503	5,111
	299,599	300,417

Long-term

Employee-related liabilities (Note 12)	105,562	97,578
Obligations under capital leases (Note 13)	361,523	367,026
Deferred capital funding (Note 11)	641,517	654,457
	1,108,602	1,119,061

EQUITY

Equity	148,151	124,052
	1,556,352	1,543,530

Commitments and contingencies (Notes 14 and 15)

The accompanying notes form an integral part of the financial statements.

Approved on behalf of the Board of Directors:

Director

Director



Consolidated Statement of Operations and Equity

For the year ended March 31

2003

(thousands of dollars)

REVENUE

Advertising and program sales	284,410	319,257
Specialty Services (Note 6)	123,271	117,722
Miscellaneous	73,154	82,383
	<u>480,835</u>	<u>519,362</u>

EXPENSE

Television and Radio service costs	1,197,501	1,150,557
Specialty Services (Note 6)	117,277	104,076
Transmission, distribution and collection	59,176	61,850
Radio Canada International	14,470	16,626
Payments to private stations	11,140	16,760
Corporate Management	15,461	15,402
Amortisation of capital assets	117,695	130,806
	<u>1,532,720</u>	<u>1,496,077</u>
	<u>(1,051,885)</u>	<u>(976,715)</u>

Operating loss before Government funding and taxes

Government funding

Parliamentary appropriation for operating expenditures (Note 4)	937,432	840,404
Funding reserved for Radio Canada International (Note 5)	15,501	15,418
Amortisation of deferred capital funding (Note 11)	118,049	130,953
	<u>1,070,982</u>	<u>986,775</u>

Net results before taxes

Recovery of income and large corporations taxes (Note 7)	(1,002)	(1,332)
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Net results for the year

Equity, beginning of year	124,052	108,660
Working Capital Funding (Note 4)	4,000	4,000
Equity, end of year	<u>148,151</u>	<u>124,052</u>

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Cash Flow

For the year ended March 31

	2003	2002
	(thousands of dollars)	
Cash Flow from (used in)		
Operating Activities		
Net results for the year	20,099	11,392
Loss on disposal of capital assets	757	1,849
Items not involving cash:		
Amortisation of capital assets	117,695	130,806
Equity in income of companies subject to significant influence	(7)	695
Variance of deferred charges	(8,340)	580
Amortisation of deferred capital funding	(118,049)	(130,953)
Pension plans asset	(23,510)	(25,495)
Employee-related liabilities [current]	1,542	(3,932)
Employee-related liabilities [long-term]	7,984	(196)
Net change in working capital balances excluding cash, cash equivalents and short-term investments (Note 17)	50,827	(12,404)
	48,998	(27,658)
Financing Activities		
Parliamentary appropriations (Note 4)		
Capital funding	105,090	138,481
Working capital funding	4,000	4,000
Government funding for capital purchases for RCI	19	102
Capital portion of lease payments	(5,111)	(4,747)
	103,998	137,836
Investing Activities		
Acquisition of capital assets	(123,976)	(129,216)
Proceeds on disposal of capital assets	17,055	7,463
Deferred charges	(7,425)	(3,654)
Business acquisition (Note 9)	(1,200)	-
Long-term investment	-	(4,070)
	(115,546)	(129,477)
Increase (Decrease) in cash, cash equivalents and short-term investments	37,450	(19,299)
Cash, cash equivalents and short-term investments, beginning of year	154,730	174,029
Cash, cash equivalents and short-term investments, end of year	192,180	154,730

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated Financial Statements for the Year Ended March 31, 2003

1. AUTHORITY AND OBJECTIVE

CBC/Radio-Canada was first established by the 1936 Canadian Broadcasting Act and continued by the 1958, 1968 and 1991 Broadcasting Acts. The Corporation is an agent of Her Majesty and all property acquired by the Corporation is the property of Her Majesty.

As the national public broadcaster, CBC/Radio-Canada provides Radio and Television services in both official languages incorporating predominantly and distinctively Canadian programs to reflect Canada and its regions to national and regional audiences.

2. CHANGE IN ACCOUNTING POLICY

Effective April 1, 2002, the Corporation adopted, prospectively, the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The adoption of the asset and liability method of tax allocation had no effect on the financial statements.

Under the new recommendations, the asset and liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Future tax expense was based on items of income and expense that were reported in different years in the consolidated financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

a. Consolidation

The consolidated financial statements include the accounts of CBC/Radio-Canada and its wholly owned subsidiary, 3899071 Canada Inc. (Country Canada), from the date of its acquisition.

b. Parliamentary Appropriations and Deferred Capital Funding

The Corporation receives most of its funding from the Government of Canada. Parliamentary appropriations for operating expenditures are recorded in the Consolidated Statement of Operations and Equity. Parliamentary appropriations for depreciable capital expenditures are recorded as deferred capital funding on the Consolidated Balance Sheet, and are amortised on the same basis and over the same periods as the related capital assets. Parliamentary appropriations for working capital and non-depreciable capital assets are credited to Equity.

c. Cash Equivalents and Short-term Investments

Cash equivalents, which are carried at cost as they are intended to be held to maturity, are comprised of marketable securities and bonds with original maturity dates of less than 90 days. Short-term investments, which are carried at cost as they are intended to be held to maturity, consist of marketable securities and bonds with original maturity dates in excess of three months and current maturities of less than 12 months from the balance sheet date.

d. Program Inventory, Film and Script Rights

(i) Program Inventory

Programs completed and in process of production or available for sale are recorded at cost. Cost includes the cost of materials and services, and labour and overhead expenses applicable to programs.

Program costs are charged to operations as the programs are broadcast, deemed unusable, or sold.

(ii) Film and Script Rights

The Corporation enters into contracts for film and script rights. The payments made under the terms of each contract are recorded as assets in the accounts. The cost of film and script rights is charged to operations in accordance with the approved program schedule or when deemed unusable.

e. Capital Assets

Capital assets are recorded at cost, less accumulated amortisation. The cost of assets constructed by the Corporation includes material, direct labour and related overhead. Assets acquired under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortisation is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

• Buildings	33 years
• Technical equipment	
Transmitters and towers	20 years
Other	5 years
• Furnishings and office equipment	10 years
• Computers	
Mainframe computers (hardware and software)	5 years
Microcomputers (hardware and software)	3 years
• Automotive	
Automobiles, cars and minivans	5 years
Snowmobiles, all-terrain vehicles	8 years
Utility vehicles, vans	10 years
Television and Radio News trucks, 5-ton and 10-ton heavy trucks	12 years
Specialised vehicles	20 years

Leasehold improvements are capitalised and amortised over the remaining terms of the respective leases to a maximum period of five years. Amounts included in uncompleted capital projects are transferred to the appropriate capital asset classification upon completion, and are then amortised according to the Corporation's policy.

f. Deferred Charges

Initial costs incurred as a result of an operating lease are amortised over the period of the lease. Other deferred charges are amortised over the period of the respective agreements.

g. Long-term Investments

Investments in entities over which the Corporation exercises significant influence are accounted for using the equity method. Under this method, the Corporation's investment is increased or decreased according to the undistributed net income or loss since acquisition. Investments in entities over which the Corporation exercises joint control are accounted for using the proportionate consolidation method. Under this method, the pro-rata share of assets, liabilities, revenues and expenses that are subject to joint control are combined with the Corporation's results.

h. Pension Cost and Obligation

The Corporation provides pensions based on length of service and final average earnings as classified under defined benefit retirement pension arrangements.

The cost of pension benefits earned by employees is determined on an actuarial basis using the projected benefit method pro-rated on service and management's best assumptions such as the expected long-term rate of return on plan assets, rate of compensation, inflation, retirement ages of employees, and mortality of members.

The pension costs are determined using the cost of employee pension benefits for the current year's service, the interest expense on the accrued benefit obligation, the expected investment return on the actuarial value of plan assets, the amortisation of the transitional asset/obligation, the amortisation of net actuarial gains and losses, and the amortisation of past service costs. The market-related value of plan assets is used for the purpose of calculating the expected return on plan assets.

The transition asset/liability, the net actuarial gains and losses and the adjustments arising from plan amendments are amortised over the estimated average remaining service life of the employee group (13.5 years).

The difference between the accumulated pension gain and the employer's contributions to the Pension Fund is reflected in the Consolidated Balance Sheet as an employee-related asset (liability).

i. Employee Future Benefits other than Pension

The Corporation provides employee future benefits such as severance pay and other benefits such as vacation pay, continuation of benefits coverage for employees on long-term disability, post-retirement life insurance, and workers' compensation.

The cost of these benefits, other than vacation pay, is determined on an actuarial basis using the projected benefit method pro-rated on years of service and management's best assumptions such as salary increases, inflation, retirement ages of employees, mortality of members, and expected health care costs.

i. Employee Future Benefits other than Pension (continued)

For severance pay, the transitional obligation and the net actuarial gains or losses are amortised over the average remaining service life of the employee group (13.5 years). The transitional obligations and the net actuarial gains or losses for post-retirement life insurance, continuation of benefits for employees on long-term disability and workers' compensation are amortised over the applicable remaining service lifetime of the plan members.

Vacation pay is calculated at the salary levels in effect at the end of the year for all unused vacation pay benefits accruing to employees.

Since a major portion of the liabilities for these items represents costs, which will be funded mainly from appropriations received from the Government of Canada in the future, these items do not have an impact on the Corporation's current net results of operations on a Government funding basis.

j. Income Taxes

The Corporation follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognised for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The rates used to calculate the future income tax assets and liabilities are the enacted or substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. If realisation of future income tax assets is considered more likely than not, a valuation allowance is provided.

k. Miscellaneous Revenue

The Corporation generates revenue other than revenue derived from advertising or program sales. These revenues are recorded as miscellaneous revenue in the Consolidated Statement of Operations and Equity. These revenues include revenue from leasing of space, facilities and services; activities as host broadcaster; commercial productions; banking activities; disposal of capital assets; and other miscellaneous activities.

l. Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses for the year. Employee-related liabilities, estimated useful lives of capital assets and contingent liabilities are the most significant items where estimates are used. Actual results could differ from those estimated.

4. PARLIAMENTARY APPROPRIATIONS

a. Parliamentary Appropriations Approved and Received

Parliamentary appropriations approved and the amounts received by the Corporation during the year are as follows:

	2003	2002
	(thousands of dollars)	
Operating Funding		
Approved annual funding	864,891	855,574
Additional non-recurring funding for programming initiatives (Note 4d)	60,000	60,000
Transfer to capital funding – Supplementary Estimates B ¹	(7,459)	(15,170)
Frozen allotment used (reprofiled in future years)	20,000	(60,000)
Operating Funding Received	937,432	840,404
Capital Funding		
Approved annual funding	97,631	100,311
Transfer from operating funding – Supplementary Estimates B ¹	7,459	15,170
Frozen allotment used (re-profiled in future years)	–	23,000
Capital Funding Received	105,090	138,481
Working Capital Funding	4,000	4,000

1. In the event that significant changes in current year requirements occur, appropriations are transferred from one vote to another or re-profiled from one fiscal year to another through Appropriation Acts tabled in the House of Commons.

b. Reconciliation of Net Results of Operations to Government Funding Basis

The Corporation receives a significant portion of its funding through Parliamentary appropriations, which is based primarily on cash flow requirements. Expenses recognised in the Consolidated Statement of Operations and Equity in one year may be funded through Parliamentary appropriations in different years. Accordingly, the Corporation's net results of operations for the year on a Government funding basis differ from those on a Canadian generally accepted accounting principles basis. The differences are outlined below:

	2003	2002
	(thousands of dollars)	
Net results for the year	20,099	11,392
Items not generating operating funds:		
Amortisation of deferred capital funding	(118,049)	(130,953)
Income items relating to capital assets	757	1,849
Other	(1,829)	184
	(119,121)	(128,920)
Items not requiring operating funds:		
Amortisation of capital assets	117,695	130,806
CBC/Radio-Canada Pension Plans and other employee future benefits	(15,526)	(25,664)
Vacation Pay	1,542	(3,932)
Program inventory costs	3,864	8,139
Other	2,061	(3,728)
	109,636	105,621
Net results of operations on a Government funding basis (including interest generated from the disposal of joint business ventures)	10,614	(11,907)
Less: Interest generated from the disposal of joint business ventures	(2,493)	(3,011)
Net results of operations on a Government funding basis (excluding interest from the disposal of joint business ventures)	8,121	(14,918)
Government funding surplus, beginning of year	23,769	38,687
Government funding surplus, end of year	31,890	23,769

c. Net Results for Capital

The purchase of capital assets is financed by Parliamentary appropriation. Additions to capital assets recorded in the current year under Canadian generally accepted accounting principles may be funded by Parliamentary appropriation in different years. The differences are outlined below:

	2003	2002
	(thousands of dollars)	
Capital funding received (Note 4a)	105,090	138,481
Capital funding for Radio Canada International	19	102
Capital funding	105,109	138,583
Proceeds on disposal of capital assets	17,055	7,463
Total capital funding for the year	122,164	146,046
Acquisition of capital assets	(123,976)	(129,216)
Capital portion of lease payments	(5,111)	(4,747)
Capital funding surplus (deficit) for the year	(6,923)	12,083
Less: Proceeds generated from the disposal of a building	(7,500)	—
Capital funding surplus (deficit) for the year (excluding proceeds generated from the disposal of a building)	(14,423)	12,083
Capital funding surplus, beginning of year, Government funding basis	19,476	7,393
Capital funding surplus, end of year, Government funding basis	5,053	19,476

d. Additional Non-recurring Funding for Programming Initiatives

On December 10, 2001, the Government of Canada announced additional non-recurring funding of \$60 million for CBC/Radio-Canada for the 2002-2003 fiscal year (2002 – \$60 million). These funds are being used across all media particularly for the enhancement of programming initiatives.

5. FUNDING FOR RADIO CANADA INTERNATIONAL

Radio Canada International is funded under the terms of a contribution agreement with the Government of Canada.

	2003	2002
	(thousands of dollars)	
Operating funding	15,501	15,418
Capital funding	19	102
	15,520	15,520

6. SPECIALTY SERVICES

The Corporation operates CBC Newsworld, the Réseau de l'information (RDI) and Galaxie under license conditions that require the reporting of incremental costs and revenues. As stipulated in their license agreement, CBC Newsworld and RDI use previous years' accumulated excess revenues over expenses to fund current year activities. At March 31, 2003, the accumulated excess revenues over expenses carried forward to future years' activities for CBC Newsworld totalled \$2.2 million (\$11.7 million for 2002) and \$321,000 for RDI (\$274,000 for 2002).

	2003				2002			
	Revenue	Expenses	Repayments to CBC Main Service ¹	Net	Revenue	Expenses	Repayments to CBC Main Service ¹	Net
	(thousands of dollars)							
CBC Newsworld	69,172	(73,125)	(5,515)	(9,468)	66,592	(62,565)	(2,509)	1,518
RDI	40,824	(38,507)	(2,270)	47	40,308	(36,587)	(3,506)	215
Galaxie	13,275	(5,645)	(130)	7,500	10,822	(4,924)	(775)	5,123
	123,271	(117,277)	(7,915)	(1,921)	117,722	(104,076)	(6,790)	6,856

1. Capital expenditures for the acquisition of equipment to introduce, maintain and expand the Specialty Services are made by CBC/Radio-Canada from its capital appropriation with an approved corporate repayment plan for recovery from the Specialty Services' revenues. Those repayments are funded from the accumulated excess revenues over expenses.

7. INCOME TAX AND TAX ON LARGE CORPORATIONS

The Corporation is a prescribed federal Crown Corporation under Part LXXI of the Income Tax Regulations and is subject to the provisions of the Income Tax Act (Canada). The Corporation's activities are not subject to provincial taxes.

The recovery of income and large corporations taxes is comprised of:

	2003	2002
	(thousands of dollars)	
Current income tax recovery	(1,002)	(1,332)
Future income tax	-	-
	(1,002)	(1,332)

7. INCOME TAX AND TAX ON LARGE CORPORATIONS (continued)

Recovery of income and large corporations taxes differs from the amount that would be computed by applying the Federal statutory income tax rate of 36.02 per cent (2002 – 38.02 per cent) to net results before taxes. The reasons for the differences are as follows:

	2003	2002
	(thousands of dollars)	
Income tax expense at Federal statutory rate	6,879	3,825
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(554)	(1,168)
Other net amounts	(726)	555
Change in valuation allowance	(5,599)	(3,212)
Large Corporations Tax recovery	(1,002)	(1,332)
	(1,002)	(1,332)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future liabilities at March 31, 2003 and 2002 are presented below:

	2003	2002
	(thousands of dollars)	
Future tax assets:		
Accrued liabilities	7,268	6,584
Employee-related liabilities	34,329	31,732
Loss carry-forward	7,825	8,532
	49,422	46,848
Less: valuation allowance	(5,874)	(11,472)
	43,548	35,376
Future tax liabilities:		
Program inventory	801	1,073
Pension plan	15,936	8,291
Capital assets	26,552	25,613
Other	259	399
	43,548	35,376
Net future tax assets (liabilities)	-	-

At March 31, 2003, the Corporation has a loss carry-forward for tax purposes of \$20.0 million (2002 – \$23.7 million), which begins to expire in 2007.

8. CAPITAL ASSETS

			2003	2002
	Cost	Accumulated Amortisation	Net Book Value	
	(thousands of dollars)			
Land	34,161	—	34,161	34,685
Buildings	364,276	(208,379)	155,897	170,186
Technical equipment	1,156,621	(861,652)	294,969	292,764
Furnishings, office equipment and computers ¹	110,189	(74,329)	35,860	32,216
Automotive ¹	47,481	(34,501)	12,980	10,845
Leasehold improvements	8,021	(4,952)	3,069	2,855
Property under capital lease ²	512,178	(153,315)	358,863	374,243
Uncompleted capital projects	111,649	—	111,649	98,671
	2,344,576	(1,337,128)	1,007,448	1,016,465

1. A change in the estimated useful life of certain categories of vehicles from 5 years to 8, 10, 12 or 20 years and from 5 years to 3 years for computers has had no significant impact on amortisation expenses in 2003.
2. Current year amortisation expenses of \$15.4 million (2002 - \$15.4 million) relating to the property under capital lease is included in the amortisation of capital assets on the Consolidated Statement of Operations and Equity.

9. BUSINESS ACQUISITION

On November 1, 2002, the Corporation acquired an additional 70 per cent interest in 3899071 Canada Inc. (Country Canada), a Canadian digital specialty television service, for \$1,200,000. The Corporation now has 100 per cent interest in Country Canada. This transaction has been accounted for using the purchase method. The Consolidated Financial Statements include the accounts of Country Canada and its operating results since November 1, 2002.

The acquisition price consists of:

	(thousands of dollars)
Acquisition price	1,200
Accounts receivable	299
Program inventory	623
Deferred charges	391
Accounts payable	(413)
Goodwill	300
	1,200

10. LONG-TERM INVESTMENTS

a. Long-term Investments – Equity Method

The Corporation has the following interest in two specialty channels:

	2003	2002
	(dollars)	
ARTV – participation at 37%	3,855,000	3,616,000
The Documentary Channel – participation at 29% ¹	–	29

1. CBC/Radio-Canada has not recorded a portion of The Documentary Channel's losses since the Corporation will not assume any financial risk relating to The Documentary Channel.

b. Long-term Investments – Joint Venture

CBC/Radio-Canada also has a partnership with Publications Gesca ltée, whereby CBC/Radio-Canada has a 50 per cent interest in *Voilà*. At March 31, 2003, the Corporation has net equity of \$(225,000) in 2003 (2002 – \$136) in this joint venture which is accounted for using the proportionate consolidation method.

11. DEFERRED CAPITAL FUNDING

	2003	2002
	(thousands of dollars)	
Balance, beginning of year	654,457	646,827
Government funding for capital expenditures (Note 4c)	105,109	138,583
Amortisation of deferred capital funding	(118,049)	(130,953)
Balance, end of year	641,517	654,457

12. PENSION PLANS ASSET AND EMPLOYEE-RELATED LIABILITIES

Employee-related liabilities are as follows:

	2003	2002	2003	2002
	Current		Long-term	
	(thousands of dollars)			
Employee future benefits other than pension	2,806	11,330	105,284	97,300
Vacation pay	39,577	38,035	—	—
Workforce reduction (Note 12b)	910	2,910	—	—
Salary-related liabilities	93,422	75,816	278	278
	136,715	128,091	105,562	97,578

a. CBC/Radio-Canada Pension Plans and Other Employee Future Benefits

The Corporation maintains a contributory defined benefit pension plan, the CBC/Radio-Canada Pension Plan, covering substantially all employees of the Corporation. Retirement benefits are based on the length of pensionable service and on the average of the best five consecutive years of pensionable salary in the last 10 years of employment. Employees are required to contribute a percentage of their pensionable salary to the plan, with the Corporation providing the balance of the funding, as required, based on actuarial valuations, which are made at least on a triennial basis (latest evaluation made in December 2002). The Corporation also maintains unfunded non-contributory defined benefit pension arrangements.

Assumptions – annual rates:

	2003	2002
Expected long-term rate of return on plan assets	6.75%	6.75%
Discount rate – beginning of year	6.00%	6.00%
Discount rate – end of year	5.75%	6.00%
Long-term rate of compensation increase, excluding merit and promotion	4.00%	4.00%
Health care trend	8.5% for 5 years; 4.5% thereafter	8.5% for 4 years; 4.5% thereafter

Annual amount:

	2003	2002
	<i>(thousands of dollars)</i>	
Employee contributions	22,991	22,848
Benefit payments for the year – pension plans	163,351	167,678
Benefit payments for the year – other employee future benefits	11,294	7,987

a. CBC/Radio-Canada Pension Plans and Other Employee Future Benefits (continued)

	2003		2002	
	CBC/ Radio-Canada Pension Plans	Other Employee Future Benefits	CBC/ Radio-Canada Pension Plans	Other Employee Future Benefits
	<i>(thousands of dollars)</i>			
Fair-market value of plan assets, end of year	3,139,218	—	3,657,481	—
Accrued benefit obligation, end of year	3,557,003	153,409	3,330,698	140,063
Surplus (deficit), end of year	(417,785)	(153,409)	326,783	(140,063)
Accrued benefit liability (asset), beginning of year	(25,495)	97,300	10,742	86,727
Employee future benefits expenses (revenues):				
Current service cost	62,458	6,669	57,714	6,331
Interest on accrued benefit obligation	197,505	8,471	190,995	8,128
Expected return on actuarial value of assets	(241,340)	—	(232,188)	—
Amortisation of past service costs	9,597	—	9,597	—
Amortisation of transitional obligation (asset)	(92,996)	3,618	(92,996)	3,618
Amortisation of actuarial losses	42,112	520	31,415	483
Employee future benefits expenses (revenues) for the year	(22,664)	19,278	(35,463)	18,560
Corporation pension plan contributions	—	—	—	—
Benefit payments of unfunded plans	(846)	(11,294)	(774)	(7,987)
Accrued benefit liability (asset), end of year	(49,005)	105,284	(25,495)	97,300

At March 31, 2003, the accrued benefit obligation for the CBC/Radio-Canada Pension Plan and for the unfunded benefit pension arrangements represents respectively \$3,519.9 million (2002 – \$3,296.5 million) and \$37.1 million (2002 – \$34.2 million).

The amortisation of past service costs is due to an amendment to the CBC/Radio-Canada Pension Plan, which has resulted in a refund of a portion of contributions to plan members. As of March 31, 2003, the unamortised amount of past service costs is \$100.8 million (2002 – \$110.4 million).

The unamortised portion of the actuarial losses represents, as of March 31, 2003, \$1,343.3 million (2002 – \$658.6 million) for CBC/Radio-Canada Pension Plans and \$15.4 million (2002 – \$6.5 million) for other employee future benefits.

The unamortised portion of the transitional asset as of March 31, 2003 is \$977.3 million (2002 – \$1,070.3 million) for the CBC/Radio-Canada Pension Plans and (\$32.7) million (2002 – (\$36.3) million) for other employee future benefits.

b. Workforce Reduction

Since 2000-2001, the Corporation has been implementing a workforce reduction plan. The results are in line with the plan.

13. OBLIGATIONS UNDER CAPITAL LEASES

The capital lease consists of premises occupied by the Corporation in Toronto. Future minimum lease payments and obligations are as follows:

	(thousands of dollars)
2004	33,039
2005	33,039
2006	33,039
2007	33,039
2008	33,039
2009 to 2027	644,256
Total future minimum payments	809,451
Deduct: imputed interest (7.53%) and executory costs	442,425
Obligation under capital lease	367,026
Less: current portion	5,503
Long-term portion	361,523

The Corporation owns the land on which the Canadian Broadcasting Centre in Toronto is located. Interest expense relating to the Canadian Broadcasting Centre lease, which is included in current year expenditures, is \$27.7 million. At the end of the lease, the Corporation will own the building.

14. COMMITMENTS

a. Program-related and Other

As at March 31, 2003, commitments for sports rights amounted to \$417.7 million; procured programs, film rights and co-productions amounted to \$36.8 million and capital assets amounted to \$2.8 million for total commitments of \$457.3 million.

b. Operating Leases

The operating leases consist mainly of property leases, network distribution leases and equipment leases. Future annual payments related to operating leases are as follows:

	(thousands of dollars)
2004	58,931
2005	58,285
2006	55,001
2007	49,890
2008	48,408
2009 to 2024	185,154
Total future payments	455,669

15. CONTINGENCIES

Various claims and legal proceedings have been asserted or instituted against the Corporation. Some demand large monetary damages or other relief and they could result in significant expenditures. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. A provision for these expenditures has been recorded based on management's best estimate. It is reasonably possible that the Corporation may have to settle some of these claims for amounts in excess of established provisions in the near term. Any such costs will be charged to operations as incurred.

16. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership with other Government departments, agencies and Crown Corporations and with private companies. The Corporation enters into transactions with these related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises. Funding received from the Government of Canada is outlined in Note 4.

17. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

Cash flows provided by (used for):

Accounts receivable
Program inventory¹
Prepaid expenses
Accounts payable and accrued liabilities
Employee-related liabilities

2003	2002
<i>(thousands of dollars)</i>	
50,048	(72,099)
9,848	14,951
(2,635)	9,394
(13,516)	18,896
7,082	16,454
50,827	(12,404)

1. Excluding \$0.5 million (2002 - 4.4 million) of amortisation of capital assets in 2003.

18. FINANCIAL INSTRUMENTS

Cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, and obligations under capital leases are valued at cost, which approximates fair value.

Cash, cash equivalents and short-term investments consist of \$5.2 million of cash (2002 - \$(5.8) million), \$110.4 million of cash equivalents (2002 - \$93.9 million) and \$76.6 million of short-term investments (2002 - \$66.6 million). The Corporation invests in the short-term money market and all securities are limited to those that are 100 per cent guaranteed by the Government of Canada. The average yield of the portfolio held as of March 31, 2003, is 2.81 per cent (2002 - 1.98 per cent) for cash equivalents and 3.10 per cent (2002 - 2.06 per cent) for short-term investments. The average term to maturity is 22 days (2002 - 14 days) and 87 days (2002 - 55 days), respectively.

The Corporation uses financial instruments such as forward contracts to reduce the risk of loss due to adverse movements in foreign exchange. Foreign exchange forward contracts worth \$22 million (2002 - \$8 million) were outstanding at the end of the year. Gains or losses on financial instruments are recognised in earnings over the period the hedged items are recognised in earnings.

19. COMPARATIVE FIGURES

Certain of the 2002 comparative figures have been reclassified to conform to the current year's presentation.

**Canadian
Commercial
Corporation**



Financial Statements and Notes

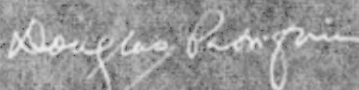
MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Canadian Commercial Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate. Financial information presented elsewhere in the annual report is consistent with the statements.

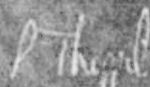
In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices which are designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices are intended to ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and adherence to corporate policies and statutory requirements.

The Audit Committee oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Corporation's external auditor has full and free access to the Audit Committee to discuss the results of her work and to express her concerns and opinions.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation, and for issuing her report thereon.



Douglas Fairquhar
President



Paul J. Thoppil, CA
Vice-President,
Risk and Financial Services

Ottawa, Canada
May 30, 2003



Financial Statements and Notes

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation and presentation of the financial statements in accordance with the applicable accounting standards and for the accuracy and completeness of the information presented. The management also has the responsibility for the design, implementation and maintenance of an effective system of internal control over financial reporting.

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Management of the Company

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AUDITOR'S REPORT

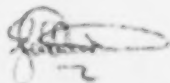
TO THE MINISTER FOR INTERNATIONAL TRADE

I have audited the balance sheet of the Canadian Commercial Corporation as at March 31, 2003 and the statements of operations and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Commercial Corporation Act* and the by-laws of the Corporation.



John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 2003

Balance Sheet

As at March 31 (in thousands of dollars)

	2003	2002
ASSETS		
Cash and short-term deposits (Note 4)	\$ 31,063	\$ 92,123
Segregated investments (Note 5)	-	101,895
Accounts receivable (Note 6)	233,664	211,027
Receivable from the Government of Canada	107	13,431
Advances to Canadian exporters	40,076	61,713
Progress payments to Canadian exporters	111,412	192,024
	416,322	672,213
Capital assets (Note 7)	2,986	2,550
	<u>\$ 419,308</u>	<u>\$ 674,763</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	\$ 217,938	\$ 242,731
Loan from the Government of Canada (Note 8)	-	10,000
Advances from foreign customers	51,186	183,471
Progress payments from foreign customers	104,793	191,497
Provision for additional contract and related costs (Note 11)	3,551	5,406
	377,468	633,105
Employee severance benefits	1,053	988
	378,531	634,093
Contingencies (Note 12)		
EQUITY OF CANADA		
Contributed surplus (Note 1)	28,000	28,000
Retained earnings	12,777	12,670
	40,777	40,670
	<u>\$ 419,308</u>	<u>\$ 674,763</u>

The accompanying notes are an integral part of the financial statements.

Approved:

A. Curfage

Chair, Board of Directors

Louis-Maurice Beaulieu

Chair, Audit Committee

Statement of Operations and Retained Earnings

For the year ended March 31 (in thousands of dollars)

	2003	2002
REVENUES		
Commercial trading transactions (Note 13)	\$1,242,149	\$1,209,524
Less: Cost of commercial trading transactions	1,234,117	1,204,227
Gross margin	8,032	5,297
Net interest income	1,365	2,517
(Loss) gain on foreign exchange	(2,772)	434
Net Revenues	6,625	8,248
EXPENSES		
Additional contract and related costs	2,295	2,543
Administrative expenses (Note 14)	20,854	19,007
Total expenses	23,149	21,550
Net results of operations before Parliamentary appropriation	(16,524)	(13,302)
Parliamentary appropriation (Note 16)	16,631	15,831
Net results of operations	107	2,529
Retained earnings at beginning of year	12,670	10,141
Retained earnings at end of year	\$ 12,777	\$ 12,670

The accompanying notes are an integral part of the financial statements.

Cash Flow Statement

For the year ended March 31 (in thousands of dollars)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from foreign customers	\$ 993,260	\$ 1,294,069
Interest received	1,365	2,410
Fees for service and other income received	7,264	5,474
Payments to Canadian exporters	(1,160,507)	(1,269,904)
Administrative payments	(20,485)	(19,053)
Cash (used in) provided by operating activities	(179,103)	12,996
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(1,035)	(2,243)
Purchases of short-term deposits	-	(101,895)
Redemptions of short-term deposits	101,895	115,504
Cash provided by investing activities	100,860	11,366
CASH FLOWS FROM FINANCING ACTIVITIES		
Parliamentary appropriation- operating	21,955	10,545
Parliamentary appropriation- contributed surplus	8,000	-
Loan (repaid) received from the Government of Canada	(10,000)	10,000
Cash provided by financing activities	19,955	20,545
Effect of exchange rate changes on cash and short-term deposits	(2,772)	434
Increase (decrease) in cash and short-term deposits	(61,060)	45,341
Cash and short-term deposits at beginning of year	92,123	46,782
Cash and short-term deposits at end of year	\$ 31,063	\$ 92,123

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

March 31, 2003

1. NATURE, ORGANIZATION AND FUNDING

The Canadian Commercial Corporation (the "Corporation" or "CCC") was established in 1946 by the *Canadian Commercial Corporation Act* and is an agent Crown corporation listed in Part I of Schedule III to the *Financial Administration Act*.

The Corporation generally acts as the prime contracting agency when foreign customers, foreign governments, international organizations, or private sector buyers, wish to purchase products and services from Canada through the Canadian Government. Contracts are made with these foreign customers and the Corporation enters into corresponding supply contracts with Canadian exporters.

Parliament has provided the Corporation with \$28 million as contributed surplus. Annually, the Corporation's operations are funded primarily through a combination of parliamentary appropriations, interest income, cost recovery, fees for service and receivable discounting revenues.

The Corporation is not subject to the provisions of the *Income Tax Act*.

On April 19, 2002, the *Canadian Commercial Corporation Act* was amended. The amendments to the Act permit the Corporation to borrow from the Consolidated Revenue Fund or other sources for an amount not to exceed \$90 million (previously \$10 million), to charge fees for services, and to separate the position of Chairman and President.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. A summary of significant policies follows:

(a) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The most significant management estimates are the provision for additional contract costs and the employee severance benefits. Actual results could differ from those estimates.

(b) Contracts

The Corporation records its commercial trading revenues, and related costs, when a delivery has taken place thus passing title to the foreign customer, or, in the case of progress payments, upon acceptance of progress billings from Canadian exporters for work performed.

Progress payments, where allowed, represent payments from foreign customers and to Canadian exporters on contracts associated with the work performed on a contract leading up to delivery. Usually these payments represent up to 75 percent of costs incurred. Since title has not yet passed to foreign customers, the Corporation recognizes the progress payments made to Canadian exporters as an asset and the progress payments received from foreign customers as a liability. Progress payment assets and liabilities are reduced upon completion of delivery and acceptance by the foreign customer.

Advances from foreign customers and to Canadian exporters represent a down payment made at the outset of the contract before any work has been performed.

Prior to the amendment of the *Canadian Commercial Corporation Act* on April 19, 2002, the Corporation was only allowed to recover costs directly incurred upon securing specific international contracts. Amounts recovered on international contracts signed prior to this date are recognized in commercial trading revenues as earned when:

- (1) deliveries have been made by the Canadian exporter, or
- (2) substantial work has been performed by the Canadian exporter in the case of progress payments.

Upon the coming into force of this amendment to the Act, the Corporation was permitted to charge commercial fees for services. Commercial fees generated on international contracts signed on or subsequent to April 19, 2002, are recognized in commercial trading revenues when services are delivered.

Receivable discounting revenues are revenues generated by the Corporation based on the difference between the amount the Corporation pays to the Canadian exporter and the amount the Canadian exporter originally billed the Corporation.

Additional contract and related costs are costs incurred primarily as a result of Canadian exporters failing to fulfil their obligations to the Corporation and are determined on a contract-by-contract basis, together with associated legal and other costs. These costs are recorded in the statement of operations in the year in which the non-performance is identified and the additional costs to be incurred by the Corporation are reasonably determinable.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenues and expenses are translated at the average monthly exchange rate.

Working capital is maintained in currencies other than Canadian dollars to facilitate cash flows between foreign customers and Canadian exporters.

(d) Cash and short-term deposits

Cash and short-term deposits includes cash, demand deposits and temporary investments, maturing in less than three months from acquisition date.

(e) Capital assets

Capital assets, primarily costs associated with the design and development of information systems are recorded, when significant, after technological feasibility is established. These capital assets are amortized on a straight-line basis over the estimated useful life of five years.

(f) Parliamentary appropriations

Parliamentary appropriations that are not in the nature of contributed capital are recorded as funding in the year for which they are appropriated, except as follows. Appropriations restricted by legislation and related to expenses of future periods are deferred and recognized as funding in the period in which the related expenses are incurred. Appropriations used for the purchase of capital assets are deferred and amortized on the same basis as the related asset.

(g) Pension plan

Employees of the Corporation participate in the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Corporation to the Plan are 2.14 times the employees' contributions on account of current service on amounts of salaries below \$100,000 annually. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Superannuation Account.

(h) Employee severance benefits

Employees of the Corporation are entitled to specified severance benefits, calculated at salary levels in effect at the time of termination, as provided for under collective agreements and conditions of employment. The liability for employee severance benefits is estimated by management based on current entitlements and is recorded in the accounts as the benefits accrue to employees.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of cash and short-term deposits, accounts receivable, receivable from the Government of Canada, advances to Canadian exporters, progress payments to Canadian exporters, accounts payable and accrued liabilities, advances from foreign customers and progress payments from foreign customers, since they have short maturities, is equivalent to their carrying amounts.

4. CASH AND SHORT-TERM DEPOSITS

As at March 31, 2003, cash and short-term deposits include:

Year ended March 31 (in thousands)

	2003		2002	
	Original Currency	Canadian dollars	Original currency	Canadian dollars
Canadian dollars	15,448	\$15,448	17,407	\$17,407
U.S. dollars	7,035	10,326	46,252	73,734
Australian dollars	4,537	4,031	422	358
EURO	479	767	-	-
British pound sterling	164	380	147	334
Eastern Caribbean dollars	202	111	487	290
		\$31,063		\$92,123

The Corporation invests in short-term deposits in Canadian Schedule A or B banks. At March 31, 2003, the average term to maturity of short-term deposits was 3 days (2002 - 3 days). The overall portfolio yield at March 31, 2003 was 2.69% (2002 - 1.92%). Cash and short-term deposits are recorded at cost which approximates fair value.

Of the cash and short-term deposits, \$20,007,000 (2002 - \$14,889,000) represents funds received from foreign customers which will be remitted to Canadian exporters at later dates in accordance with contracts. Where contracted, these funds may accrue interest to the credit of the Canadian exporter or foreign customer.

5. SEGREGATED INVESTMENTS

The Corporation holds significant advances from foreign customers or Canadian exporters which, upon demand by one of the contractual parties, are segregated and invested separately from the Corporation's cash and short-term deposits. In these instances, interest earned is credited to the benefit of the respective foreign customer or Canadian exporter.

Segregated investments are short-term deposits in Canadian Schedule A or B banks and are made up of the following:

Year ended March 31 (in thousands)

	2003			2002		
	Canadian dollars	Days to maturity	Yield	Canadian dollars	Days to maturity	Yield
Investment A	-	-	-	\$2,764	25	1.65%
Investment B	-	-	-	99,131	2	2.75%
				\$101,895		

6. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts receivable are due on normal international trade terms and are generally non-interest bearing.

Accounts payable are due on normal trade terms, except for accounts payable to certain small-medium enterprises with contracts signed prior to January 2001. Where these contracts have not been completed, related accounts payable are paid within 15 days.

7. CAPITAL ASSETS

Year ended March 31 (in thousands of dollars)

	2003		2002	
	Cost	Accumulated Amortization	Net book Value	Net book Value
Information systems	\$3,583	\$597	\$2,986	\$2,550

Included in administrative expenses is \$597,000 (2002: Nil) of amortization.

8. LOAN FROM THE GOVERNMENT OF CANADA

Prior to April 19, 2002, the Corporation had authority to draw loans from the Consolidated Revenue Fund, subject to Governor-in-Council and Minister of Finance approvals, in amounts up to a total of \$10 million as required to supplement its working capital.

During the year ending March 31, 2002, the Corporation was able to borrow amounts with approval from the Minister of Finance for up to 120 days at the Consolidated Revenue Fund lending rate to Crown corporations which equals the latest available interest rate on comparable term Treasury bills plus 1/8 of 1%. Of the \$10 million outstanding as at March 31, 2002, \$1.5 million was paid on April 26, 2002 bearing an interest rate of 2.12% and \$8.5 million was paid on July 21, 2002 bearing an interest rate of 2.28%.

9. DEMAND OPERATING CREDIT FACILITY

On August 16, 2002, the Corporation opened a revolving credit facility providing access to funds in the amount of \$40 million Canadian or its U.S. dollar equivalent. Indebtedness under this agreement is unsecured and this credit facility has no expiry date. As at March 31, 2003, there were no draws on this line of credit.

10. CONTRACTUAL OBLIGATIONS AND RISK MANAGEMENT

(a) Contractual obligations and indemnities

The Corporation is obligated to complete numerous contracts with foreign customers. As of March 31, 2003, the total contract value remaining to be fulfilled approximates \$2.0 billion (2002: \$2.3 billion).

Under the Progress Payment Program, the Corporation indemnifies participating banks for amounts they have advanced to Canadian exporters. The Corporation may claim title to the works in progress should a Canadian exporter fail to complete a contract. The amount of outstanding indemnities as of March 31, 2003 is \$11,225,000 (2002: \$6,050,000).

Under a specific series of contracts, the Corporation also indemnifies a bank for amounts it has advanced to Canadian exporters. The Corporation has access to a number of commercial securities should the foreign party fail to repay amounts owed. The amount of outstanding indemnities as of March 31, 2003 is \$39,470,000 (2002: \$45,773,000).

(b) Risk management

In terms of foreign customer credit risk, the Corporation generally extends open account terms to parties with a credit rating of at least AAA, and seeks security where the rating falls below this threshold.

To address foreign exchange risks, contracts with foreign customers and corresponding contracts with Canadian exporters are generally entered into in the same currency. The Corporation uses this and other techniques to effectively transfer the currency risk to the Canadian exporter.

11. PROVISION FOR ADDITIONAL CONTRACT AND RELATED COSTS

The Corporation may incur additional contract and related costs should Canadian exporters not fulfil the terms of their contracts. The Corporation has recorded a provision of \$3,551,000 as of March 31, 2003 (2002: \$5,406,000), representing management's best estimate of the additional costs which will be incurred by the Corporation to meet its contractual obligations.

12. CONTINGENCIES

The Corporation is the claimant or defendant in certain pending claims and lawsuits. While the damages being claimed by the plaintiffs are significant, based on advice from legal counsel, management believes that the potential liabilities of the Corporation and consequent damages or awards arising from such liabilities are, at present, not determinable.

Amounts payable, if any, will be recorded in the year in which they can be determined.

13. COMMERCIAL TRADING TRANSACTIONS

Commercial trading transactions arising from the Corporation's facilitation of sales of Canadian goods to foreign customers, which include governments, international agencies and other buyers throughout the world, were distributed as follows:

Year ended March 31 (in thousands of dollars)

	2003	2002
U.S. government and other buyers	\$943,930	\$908,383
Other foreign governments and buyers	282,090	270,683
United Nations agencies	16,129	30,458
	\$1,242,149	\$1,209,524

Commercial trading transactions are comprised of contract billings of \$1.2 billion (2002 - \$1.2 billion) and fee for services and other income of \$8,032,000 for the year ended March 31, 2003 (2002 - \$5,297,000).

Commercial trading transactions are distinct from business volume which is the term used to describe the total value of contracts and amendments signed during the year. Business volume for the year ended March 31, 2003 amounted to \$952 million (2002 - \$1.2 billion).

14. ADMINISTRATIVE EXPENSES

Administrative expenses were distributed as follows:

Year ended March 31 (in thousands of dollars)

	2003	2002
Workforce compensation	\$9,273	\$8,691
Travel and hospitality	1,122	1,127
Telecommunications, courier, translations	348	361
Marketing and promotion	1,026	679
Human resource training and other initiatives	451	329
Rent	872	924
Software/ hardware and support	729	862
Public Works and Government Services Canada fee for service	5,937	5,507
Amortization	587	-
Other expenses	499	527
	\$20,854	\$19,007

15. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements.

(a) Public Works and Government Services Canada

Public Works and Government Services Canada provides contract management services to the Corporation at negotiated rates based in part on the amounts of contracts procured, and provides certain functions at cost.

For the year ended March 31, 2003 the cost of these services amounted to \$5,937,000 (2002 - \$5,507,000) and is included in administrative expenses.

In one circumstance, Public Works and Government Services Canada provides the Corporation with contract management services at no additional cost. It is not practicable to determine the cost of these services. Accordingly, the value of these services is not recorded in the Corporation's accounts.

(b) Department of Justice

The Department of Justice provides legal services to the Corporation and represents it in certain matters. The Corporation pays for legal fees and expenses incurred in connection with specific actions. For the year ended March 31, 2003 the cost of legal fees and expenses in the amount of \$364,000 (2002 - \$276,000) are included in administrative expenses, and in the amount of \$305,000 (2002 - \$396,000) are included in additional contract and related costs.

As a result of these related party transactions, the amounts due from and to these parties are nil (2002 - \$9,000) and \$651,000 (2002 - \$370,000) and are included in accounts receivable and accounts payable respectively.

16. PARLIAMENTARY APPROPRIATIONS

During the year, the Parliament of Canada authorized appropriations for the Corporation in the amount of \$16,631,000 (2002 - \$23,831,000). A portion of the amount authorized in the year 2002, \$8,000,000, was for equity purposes and thus was accounted for as contributed surplus.

17. LEASE COMMITMENTS

Future minimum payments by fiscal year on operating leases for premises are as follows:

2003-04	\$905,000
2004-05	789,000
2005-06	396,000
	\$2,090,000

18. COMPARATIVE FIGURES

Certain 2001-02 figures have been reclassified to conform with the current year presentation.



**Canadian
Dairy
Commission**



Management Responsibility for Financial Statements

The financial statements of the Canadian Dairy Commission and all information in this Annual Report are the responsibility of management. Those statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements where appropriate. Financial information presented elsewhere in the Annual Report is consistent with the statements provided.

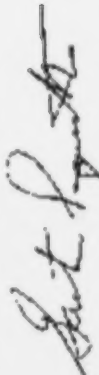
In discharging its responsibility for financial reporting, management maintains and relies on financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls and practices ensure the orderly conduct of business, the accuracy of accounting records, the timely preparation of reliable financial information and the adherence to Commission policies and statutory requirements. The process includes management's annual communication to employees of Treasury Board's guidelines on conflict of interest and code of conduct.

The Audit Committee of the Canadian Dairy Commission, made up of the Commissioners, oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Commission's internal and external auditors have free access to the Audit Committee to discuss the results of their work and to express their concerns and opinions.

The transactions and financial statements of the Commission have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.



Louis Balcaen, Acting Chairman



Gaëtan Paquette, Acting Senior Director, Finance and Operations

Ottawa, Canada

September 24, 2002

FINANCIAL STATEMENTS

Significant Factors Affecting Financial Statements

Total sales revenue for the dairy year was \$262 million, which is an 18% increase over the previous dairy year's total sales of \$222 million. In contrast, operations for the current dairy year generated a loss of \$4.4 million, compared to a \$19.2 million margin achieved in the prior year.

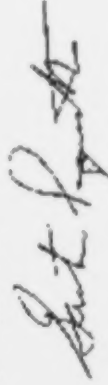
The Commission had anticipated this shortfall at the beginning of the year due to the purchase price of its skim milk powder for export being higher than the prevailing world price. Consequently, this loss reduced the previous years' accumulated surplus available for refund to producers. In January 2002, the purchase price of skim milk powder was aligned with the world market price to ensure that losses would not be generated from the sales of stocks purchased during the rest of the year.

Contrary to last year, this year's over quota production required the export of butter and whole milk powder, which contributed to the overall loss. As in the past, purchases and domestic sales of butter continued to generate favourable returns for the Commission.

Inventory levels remained relatively constant compared to the previous year. The Commission was required to take a provision to make up for loss of value on its inventory at year-end destined for export.

Our outstanding loans during the year benefited from favourable interest rates, which resulted in proportionally lower carrying charges per unit of inventory.

During the year, eligible dairy producers received the last payments totaling \$16.2 million in subsidies for their shipments of industrial milk and cream with regard to the Federal subsidy program, which ended on January 31, 2002.



Gaëtan Paquette, Acting Senior Director, Finance and Operations

Auditor's Report

To the Minister of Agriculture and Agri-Food

I have audited the balance sheet of the Canadian Dairy Commission as at July 31, 2002 and the statement of costs funded by the Government of Canada, the statement of operations and surplus and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at July 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Dairy Commission Act* and regulations, the *Directions to the Canadian Dairy Commission (Export Dairy Products)* and the by-laws of the Commission.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada

September 24, 2002

FINANCIAL STATEMENTS

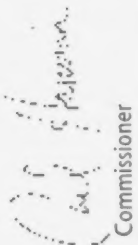
Balance Sheet as at July 31, 2002 (in thousands)

	2002	2001
Assets		
Cash	\$ 957	\$ 1,024
Accounts receivable		
Trade (Note 3)	8,440	13,417
Government of Canada (Dairy Support Program)	25	8,550
Due from provincial milk marketing boards and agencies	19,190	23,376
Inventories (Note 4)	102,237	110,266
	\$ 130,849	\$ 156,633
Liabilities		
Accounts payable and accrued liabilities		
Trade	\$ 11,597	\$ 19,280
Other liabilities	3,810	1,445
Due to provincial milk marketing boards and agencies	18,899	22,092
Subsidies payable to producers	—	8,525
Loans from Government of Canada (Note 6)	81,411	78,523
	115,717	129,865
Surplus (Note 8)	15,132	26,768
	\$ 130,849	\$ 156,633

Commitments (Notes 11 and 13)

Approved:


Acting Chairman


Commissioner


Acting Senior Director, Finance and Operations

The accompanying notes and schedule are an integral part of these financial statements.

Statement of Costs Funded by the Government of Canada

for the year ended July 31, 2002

(in thousands)

	2002	2001
Subsidies to producers of industrial milk and cream	\$ 16,197	\$ 50,977
Operating expenses	2,873	2,775
Costs of production and dairy policy studies	300	542
Total costs funded by the Government of Canada (Note 9)	\$ 19,370	\$ 54,294

The accompanying notes and schedule are an integral part of these financial statements.

FINANCIAL STATEMENTS

Statement of Operations and Surplus

for the year ended July 31, 2002

(in thousands)

	2002	2001
Export sales	\$ 125,503	\$ 114,262
Cost of sales	135,633	101,628
(Loss) margin on export sales	(10,130)	12,634
Domestic sales	136,548	107,739
Cost of sales	130,789	101,186
Margin on domestic sales	5,759	6,553
Total (loss) margin on sales	(4,371)	19,187
Pooling of market returns activities		
Contributions from provincial marketing boards and agencies	122,877	117,324
Equalization payments to provincial marketing boards and agencies	115,421	110,138
Contributions withheld to fund operating expenses	7,456	7,186
Operating expenses (Note 10)	15,466	12,726
Net results of operations before Government funding	(12,381)	13,647
Operating expenses funded by the Government of Canada	2,873	2,775
Net results of operations after Government funding	(9,508)	16,422
Surplus at beginning of year	26,768	17,146
	17,260	33,568
Refund of surplus to producers	2,128	6,800
Surplus at end of year	\$ 15,132	\$ 26,768

The accompanying notes and schedule are an integral part of these financial statements.

Statement of Cash Flows

for the year ended July 31, 2002
(in thousands)

	2002	2001
Cash flows from operating activities		
Cash receipts from customers	\$ 267,028	\$ 220,723
Cash paid to suppliers and others	(277,559)	(241,732)
Cash receipts from provincial milk marketing boards and agencies	134,522	134,611
Cash paid to provincial milk marketing boards and agencies	(126,068)	(130,874)
Cash receipts from the Government of Canada	27,895	60,082
Subsidies paid to producers of industrial milk and cream	(24,722)	(56,765)
Interest paid	(1,923)	(2,461)
Cash flows from (used in) operating activities	(827)	(16,416)
Cash flows from financing activities		
New loans from the Government of Canada	196,812	198,857
Loan repayments to the Government of Canada	(193,924)	(178,713)
Decrease in the bank indebtedness-pooling of market return system	-	(364)
Cash paid to refund surplus to producers	(2,128)	(6,800)
Cash flows from (used in) financing activities	760	12,980
Net decrease in cash	(67)	(3,436)
Cash at beginning of year	1,024	4,460
Cash at end of year	\$ 957	\$ 1,024

The accompanying notes and schedule are an integral part of these financial statements.

FINANCIAL STATEMENTS

Notes to Financial Statements

July 31, 2002

1. The Commission

The Canadian Dairy Commission (the "Commission") is an agent Crown corporation named in Part I, Schedule III to the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. The objects of the Commission, as established by the *Canadian Dairy Commission Act*, are "to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality".

The Commission administered subsidy payments to producers (the program was terminated on January 31, 2002) and administers other costs funded by the Government of Canada. In co-operation with the Canadian Milk Supply Management Committee (CMSMC), which it chairs, the Commission undertakes the management and administration of operations funded by producers. The results of the Commission's operations in each of these areas are presented in the Statement of Costs Funded by the Government of Canada, and in the Statement of Operations and Surplus, respectively, in order to distinguish and reflect the accountability relationships for them. The Statement of Cash Flows reflects transactions of both areas of operations.

The Commission purchases all butter and skim milk powder tendered to it at either the Canadian support price or at prices established by the Commission, depending on the intended resale markets, except for a portion of butter imported by the Commission at international market price for domestic consumption in accordance with Canada's commitments at the World Trade Organization (WTO). While a major portion of the butter purchased by the Commission is later resold in the domestic market, most of the skim milk powder is in excess of domestic needs and is exported. The Commission sells production surplus to domestic requirements in the form of whole milk products, skim milk powder and butter on international markets.

The Commission administers, on behalf of the industry, a pricing and pooling of market returns system, which provides milk components to further processors and exporters through processors at competitive prices. Accordingly, this system is administered by the Commission in accordance with the "Comprehensive Agreement on Pooling of Milk Revenues" to allow dairy producers to share special class revenues nationally as well as the "Western Milk Pooling Agreement" and the "Agreements on All Milk Pooling" to allow dairy producers to share revenues regionally.

2. Significant accounting policies

Inventories

Inventories are valued at the lower of cost or estimated net realizable value.

Cost of sales

Goods purchased by the Commission for export sales are purchased at prices established by the Commission.

Foreign currency translation

A portion of sales in foreign currencies are hedged by forward exchange contracts and are translated into Canadian dollars at the exchange rates provided therein. Sales in foreign currencies that are not hedged are translated into Canadian dollars at the exchange rate in effect on the transaction date.

Contributions to Public Service Superannuation Plan

The Commission's eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Both the employees and the Commission contribute to the cost of the Plan. Contributions by the Commission are expensed in the year incurred.

The Commission is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Plan.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Valuation of inventories and contingencies are the most significant items where estimates are used. Actual amounts could differ from the current estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

3. Accounts receivable — Trade

Most of the trade accounts receivable are in foreign currencies and their Canadian dollar value has been determined using the rate to be paid under forward exchange contracts as further explained in Note 11. These foreign accounts receivable are guaranteed by letters of credit, are payable on demand and are non-interest bearing.

4. Inventories

	2002	2001
	(in thousands)	
Butter	\$ 79,186	\$ 78,299
Skim milk powder	22,234	29,155
Other dairy products	1,458	2,812
	\$ 102,878	\$ 110,266
less: allowance for inventory write down	641	—
Net book value	\$ 102,237	\$ 110,266

FINANCIAL STATEMENTS

5. Bank indebtedness — Pooling of market returns system
To provide bridge financing and ensure the efficient operation of the pricing and pooling of market returns system, the Commission established a \$10 million line of credit with a member of the Canadian Payments Association. The bank indebtedness incurred under this line of credit is due on demand and bears interest at prime which on July 31, 2002 was 4.50% per annum. The bank indebtedness is repaid monthly and was fully repaid at year-end.

6. Loans from Government of Canada
Loans from the Government of Canada, to a maximum of \$100 million, are available to finance operations. Individual loans are repayable within one year from the date the loan is advanced. Principal and accrued interest are repaid regularly during the year when funds are available. Interest on the loans are at the normal rates established for Crown corporations by the government and varied from 2.03% to 4.54% (2001 — 4.29% to 6.02%) during the year.

7. Fair value of financial instruments
The carrying amount of the accounts receivable, accounts payable and accrued liabilities, subsidies payable to producers and loans from the Government of Canada approximate their fair values because of the short-term to maturity.

8. Surplus

The Commission indirectly collects amounts from consumers through a charge included in the retail sale price of butter. This charge is used to fund the carrying costs associated with normal level of butter inventory. This amount is included in contributions withheld to fund operating expenses presented in the Statement of Operations and Surplus. The surplus at the end of the year is made up of an accumulated surplus of this funding and surplus amounts relating to commercial sales.

The refund of surplus to producers relating to commercial sales is determined on an annual basis and recorded in the year in which it is authorized.

9. Costs funded by the Government of Canada (Dairy Support Program)

Agriculture and Agri-Food Canada provided funding to the Commission for subsidy payments to producers of industrial milk and cream shipments produced to meet domestic requirements. The rate of subsidy payments from August 1, 2001 to January 31, 2002 was \$0.211 per kilogram of butterfat or \$0.76 per hectolitre of milk containing 3.6 kilograms of butterfat (August 2000 to January 2001 — \$0.422 or \$1.52 and February 2001 to July 2001 — \$0.211 or \$0.76 respectively). This dairy support program ended January 31, 2002.

Funding of the Commission's administrative expenses is shared among the federal government (44 percent), dairy producers (36 percent) and the market place (20 percent). The Government of Canada has funded \$2.9 million (2001 — \$2.8 million) of the Commission's administrative expenses of \$6.7 million (2001 — \$6.5 million), as well as professional services relating to cost of production and dairy policy studies.

10. Operating expenses

Operating expenses included the Commission's contributions to the Public Service Superannuation Plan during the year, totaling \$496 thousand (2001 — \$473 thousand), which corresponds to about 2.6 times (same in 2001) the employees' contributions to the Plan.

11. Forward exchange contracts

As part of its foreign exchange risk management, the Commission enters into forward exchange contracts with regard to a portion of its export sales contracts. At the end of the year, the Commission's outstanding forward exchange contracts totaled \$19.5 million Canadian equivalent (2001 — \$18 million equivalent). These contracts mature from August to November 2002. The maturity dates of the forward exchange contracts correspond to the estimated dates when the Commission expects to receive the foreign currency proceeds arising from export sales contracts.

12. Representatives' fees

The Commission used the services of representatives for sale of dairy products on the export market. Total fees for the year were \$0.9 million (2001 — \$1.1 million) and are included in cost of sales.

13. Purchase commitments

As at July 31, 2002, the Commission was committed to purchase certain butter, skim milk powder and other dairy products produced prior to that date. These commitments amounted to approximately \$2.0 million (2001 — \$2.4 million).

14. Related party transactions

The Commission is related in terms of common ownership to all Government of Canada-created departments, agencies and Crown corporations. The Commission enters into transactions with these entities in the normal course of business. These transactions totaled about \$1.4 million during the year (2001 — \$1.1 million).

15. Financial statement presentation

Certain comparative amounts have been reclassified to conform with the presentation adopted in the current year.

FINANCIAL STATEMENTS

Schedule of Operations by Product

for the year ended July 31, 2002

(in thousands)

	2002			2001		
	Butter	Skim Milk Powder	Other Products*	Butter	Skim Milk Powder	Other Products*
			Total			Total
Export sales	\$ 1,769	\$ 111,409	\$ 12,325	\$ -	\$ 114,162	\$ 100
Cost of sales	3,788	118,623	13,222	-	101,528	100
(Loss) margin on export sales	(2,019)	(7,214)	(897)	-	12,634	0
Domestic sales	128,776	7,772	-	96,350	11,389	-
Cost of sales	122,863	7,926	-	89,838	11,348	-
Margin on domestic sales	5,913	(154)	-	6,512	41	-
Total (loss) margin on sales	\$ 3,894	\$ (7,368)	\$ (897)	\$ 6,512	\$ 12,675	\$ -
Operating expenses						
Domestic dairy product assistance	29	-	274	44	-	345
Carrying charges	3,740	1,512	90	3,770	1,261	4
Promotional activities	2,000	-	-	-	-	-
Inventory writedown	441	78	122	-	-	-
Administrative expenses	\$ 6,210	\$ 1,590	\$ 486	\$ 3,814	\$ 1,261	\$ 349
Cost of production, interest and bank charges related to the operation of the pooling of the market returns system			6,704			6,487
Total operating expenses			476			815
			\$ 15,466			\$ 12,726

* Includes whole milk powder and evaporated milk

The accompanying notes are an integral part of this schedule.

**Canadian
Museum
of Civilization**



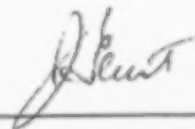
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements contained in this annual report have been prepared by Management in accordance with Canadian generally accepted accounting principles, and the integrity and objectivity of the data in these financial statements are Management's responsibility. Financial information presented throughout the annual report is consistent with the financial statements.

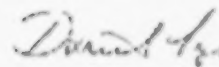
In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations as well as the *Museums Act* and the by-laws of the Corporation.

The Board of Trustees is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Trustees. The Board of Trustees has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, examines the financial statements and reports to the Minister of Canadian Heritage, who is responsible for the Canadian Museum of Civilization.



J. (Joe) Geurts
Chief Operating Officer and
Senior Vice-President



David Loye
Chief Financial Officer

May 16, 2003





Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

AUDITOR'S REPORT

To the Minister of Canadian Heritage

I have audited the balance sheet of the Canadian Museum of Civilization as at March 31, 2003 and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 16, 2003

CANADIAN MUSEUM OF CIVILIZATION

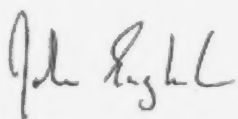
Balance Sheet as at March 31

ASSETS

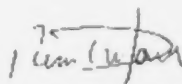
(in thousands of dollars)	2003	2002
CURRENT		
Cash and cash equivalents (Note 3)	\$ 41,902	\$ 22,340
Accounts receivable (Note 4)	4,816	3,364
Inventories	1,069	1,050
Prepaid expenses	1,450	1,372
	49,237	28,126
Restricted cash and investments (Note 5)	18,251	14,772
Collection (Note 6)	1	1
Property and equipment (Note 7)	28,728	15,948
	\$ 96,217	\$ 58,847

The accompanying notes and schedules form an integral part of the financial statements.

Approved by the Board of Trustees:



Chairperson



Trustee

LIABILITIES

(in thousands of dollars)	2003	2002
CURRENT		
Accounts payable and accrued liabilities (Note 8)	\$ 15,168	\$ 8,571
Deferred revenues	1,271	750
	16,439	9,321
Employee future benefits (Note 9)	2,673	2,483
Deferred contributions (Note 10)	11,251	7,772
Deferred capital funding (Note 11)	43,377	17,266
	73,740	36,842
Commitments (Note 16)		

EQUITY OF CANADA

Internally restricted (Note 12)	7,000	7,000
Unrestricted	15,477	15,005
	22,477	22,005
	\$ 96,217	\$ 58,847

The accompanying notes and schedules form an integral part of the financial statements.

CANADIAN MUSEUM OF CIVILIZATION

Statement of Operations and Equity of Canada for the year ended March 31

(in thousands of dollars)	2003	2002
Revenues (Schedule 1)	\$ 12,768	\$ 11,906
Expenses		
Collect and research	10,993	9,031
Exhibit, educate and communicate	13,745	12,836
Canadian War Museum	7,714	5,749
Accommodate	21,559	20,590
Corporate services	13,104	12,320
Total expenses (Schedule 2)	67,115	60,526
Net result of operations before government funding	(54,347)	(48,620)
Parliamentary appropriation (Note 17)	54,819	50,313
Net income	472	1,693
Equity of Canada at beginning of year	22,005	20,312
Equity of Canada at end of year	\$ 22,477	\$ 22,005

The accompanying notes and schedules form an integral part of the financial statements.

CANADIAN MUSEUM OF CIVILIZATION

Statement of Cash Flows for the year ended March 31

(in thousands of dollars)	2003	2002
Operating activities		
Cash receipts (clients)	\$ 10,598	\$ 11,398
Cash receipts (parliamentary appropriation)	54,519	52,623
Cash paid (employees and suppliers)	(60,425)	(59,166)
Interest received	1,106	1,338
Cash flows from operating activities	5,798	6,193
Investing activities		
Acquisition of property and equipment	(15,736)	(6,784)
Increase in restricted cash and investments	(3,479)	(1,565)
Cash flows used in investing activities	(19,215)	(8,349)
Financing activities		
Parliamentary appropriation for the acquisition of property and equipment	29,453	6,102
Restricted contributions and related investment income	3,526	1,980
Cash flows from financing activities	32,979	8,082
Increase in cash and cash equivalents	19,562	5,926
Balance at beginning of year	22,340	16,414
Balance at end of year	\$ 41,902	\$ 22,340

The accompanying notes and schedules form an integral part of the financial statements.

CANADIAN MUSEUM OF CIVILIZATION

Notes to Financial Statements March 31, 2003

1. Mission and mandate

The Canadian Museum of Civilization (the "Corporation") was established on July 1, 1990 by the *Museums Act*. The Canadian Museum of Civilization is an agent Crown corporation named in *Part I of Schedule III to the Financial Administration Act*. The Canadian War Museum is a component of the Canadian Museum of Civilization.

The mission, as stated in the *Museums Act*, is as follows:

"to increase, throughout Canada and internationally, interest in, knowledge and critical understanding of and appreciation and respect for human cultural achievements and human behaviour by establishing, maintaining and developing for research and posterity a collection of objects of historical or cultural interest, with special but not exclusive reference to Canada, and by demonstrating those achievements and behaviour, the knowledge derived from them and the understanding they represent."

The Canadian Museum of Civilization's operations are divided into five mutually supportive activities which work together to meet all aspects of its mandate. These activities are:

Collect and research

Manages, develops, conserves, and undertakes research on the collections to enhance program delivery and augment the scientific knowledge base.

Exhibit, educate and communicate

Develops, maintains, and communicates exhibits, programs and activities to further knowledge, critical understanding, appreciation and respect for human cultural achievements and human behaviour.

Accommodate

Managing and maintaining all facilities and related security and hosting services.

Canadian War Museum

An affiliated museum dedicated to Canada's military history and continuing commitment to peacekeeping.

Corporate services

Governance, corporate management, audit and evaluation, fund raising, commercial activities, finance and administration, human resources and information systems.

2. **Significant accounting policies**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies follow.

(a) **Inventories**

Inventories, which consist of materials for the boutiques and publications, are valued at the lower of cost and net realizable value.

(b) **Collection**

The artifact collection forms the largest part of the assets of the Corporation and is presented in the balance sheet at a nominal value of \$1,000, due to the practical difficulties of determining a meaningful value for these assets.

Objects purchased for the collection of the Corporation are recorded as an expense in the year of acquisition. Objects donated to the Corporation are not recorded in the books of accounts.

(c) **Property and equipment**

Property and equipment are valued at cost, net of accumulated amortization.

Amortization is calculated using the straight-line method, over the estimated useful lives of assets:

Canadian War Museum building	40 years
Leasehold and building improvements	10 years
Office furniture and equipment	8 years
Technical and informatics equipment	5 and 8 years
Motor vehicles	5 years

(d) **Employee future benefits**

i) Pension benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

ii) Severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as the employees render the services necessary to earn them. Management determined the accrued benefit obligation using a method based upon assumptions and its best estimates. These benefits represent the only obligation of the Corporation that entails settlement by future payment.

(e) **Contributions**

The Corporation follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted, and related investment income, are deferred and recognized as revenue in the year in which the related expenses are incurred.

Volunteers contribute a significant number of hours of service per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(f) **Parliamentary appropriation**

The Government of Canada provides funding to the Corporation. The portion of the parliamentary appropriation intended to be used to purchase depreciable property and equipment is recorded as deferred capital funding and amortized on the same basis and over the same periods as the related property and equipment acquired. Parliamentary appropriations for specific projects are deferred and recognized on the statement of operations in the year in which the related expenses are incurred. The remaining portion of the appropriation is recognized in the statement of operations in the year for which it was approved.

(g) **Measurement uncertainty**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the year. Employee-related liabilities and estimated useful lives of property and equipment are the most significant items where estimates are used. Actual results could differ from those estimated.

3. **Cash and cash equivalents**

The Corporation invests in the short-term money market. The overall portfolio yield as at March 31, 2003 was 2.7% (2002 – 3.5%). All instruments held in short-term investments are rated R1 or better by the Dominion Bond Rating Service. The average term to maturity is 34 days (2002 – 32 days). The fair value of the short-term investments approximates the book value due to their impending maturity.

4. **Accounts receivable**

(in thousands of dollars)	2003	2002
Refundable taxes	\$ 1,775	\$ 839
Trade accounts	842	626
Parliamentary appropriation	2,160	1,860
Other	39	39
	<u>\$ 4,816</u>	<u>\$ 3,364</u>

5. **Restricted cash and investments**

Restricted cash and investments arise from contributions received from individuals and corporate entities for a specified purpose and from internally restricted funds.

The overall portfolio yield on restricted cash as at March 31, 2003 was 2.7% (2002 – 3.4%). All instruments held in short-term investments are rated R1 or better by the Dominion Bond Rating Service. The average term to maturity is 35 days (2002 – 37 days). The fair value of the short-term investments approximates the book value due to their impending maturity.

6. **Collection**

The Corporation maintains the material culture collections of artifacts, objects, specimens and their related information. These collections are developed by various research areas within the Corporation. The collections are divided into the following eight discipline-related groups:

Ethnology - ethnographic and fine art collections principally related to North American First Peoples in post-European contact

Folk Culture - folk culture and fine craft collections illustrating the diversity of cultural influences on Canadian culture

History - collections which illustrate the experience of the common person as well as famous Canadians

Canadian Postal Museum - collections of philatelic, artwork and material culture which serve to illustrate the role of postal communication in defining and shaping a nation

Canadian Children's Museum - collections which emphasize intercultural understanding and experience, as well as supporting a rich animation programme

Living History - collection of properties, costumes and didactic resources which are used by animators, educators and other staff to promote and enliven the Museum's programming

Canadian War Museum - collections of weapons and technological artifacts illustrating the development of military technologies, dress and insignia collections of uniforms, medals, accoutrements and regalia of the Canadian Armed Forces and its allies, and war art collections of paintings, drawings, prints and sculptures from the Canadian War Artist programmes and modern art works illustrating Canadian Peacekeeping efforts

Archaeology - archaeological collections of material culture, physical anthropology, flora and fauna recovered from dig sites and principally illustrating indigenous North American culture prior to European contact

7. Property and equipment

(in thousands of dollars)		2003		2002	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	
New Canadian War Museum Building	\$ 11,213	\$ -	\$ 11,213	\$ 1,172	
Leasehold and building improvements	35,652	20,284	15,368	12,814	
Office furniture and equipment	5,910	5,800	110	63	
Technical equipment	8,642	7,763	879	949	
Informatics equipment	8,577	7,878	699	879	
Motor vehicles	163	90	73	71	
Property classified as held for sale	386	-	386	-	
	\$ 70,543	\$ 41,815	\$ 28,728	\$ 15,948	

An asset class was created as at April 1, 2001 for the new Canadian War Museum building. This asset class will serve to account for capital expenditures related to the construction of the new museum. Once the construction project is complete this asset class will be amortized over its useful life.

Property and equipment do not include the land and buildings currently occupied by the Corporation since they are owned by the Government of Canada.

8. Accounts payable and accrued liabilities

(in thousands of dollars)	2003	2002
Trade accounts payable	\$ 12,370	\$ 6,173
Accrued salaries and vacation pay	1,915	1,731
Government departments and agencies	476	407
Current portion of employee future benefits	407	260
	\$ 15,168	\$ 8,571

9. Employee future benefits

i) Pension benefits

The Public Service Superannuation Plan required the Corporation to contribute at a rate of 2.14 times the employee's contribution (2002 - 2.14). The Corporation's contribution to the Plan during the year was \$2,383,000 (2002 - \$2,172,000).

ii) Severance benefits

The Corporation provides severance benefits to its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan is as follows:

(in thousands of dollars)	2003	2002
Accrued benefit obligation, beginning of year	\$ 2,743	\$ 2,600
Expense for the year	575	301
Benefits paid during the year	(238)	(158)
Accrued benefit obligation, end of year	\$ 3,080	\$ 2,743
Short-term portion	\$ 407	\$ 260
Long-term portion	2,673	2,483
	\$ 3,080	\$ 2,743

10. **Deferred contributions**

Deferred contributions represent unspent externally restricted donations and related investment income.

Changes in the deferred contributions balance are as follows:

(in thousands of dollars)	2003	2002
Balance at beginning of year	\$ 7,772	\$ 6,206
Add donations received in the year	3,282	1,968
Add deferred investment income (Note 13)	244	12
Less donations recognized as revenue	(47)	(414)
Balance at end of year	\$ 11,251	\$ 7,772

11. **Deferred capital funding**

Deferred capital funding represents the unamortized portion of parliamentary appropriations used or to be used to purchase depreciable property and equipment.

Changes in the deferred capital funding balance are as follows:

(in thousands of dollars)	2003	2002
Balance at beginning of year	\$ 17,266	\$ 14,376
Appropriations received in the current year to purchase depreciable property and equipment	14,916	5,774
Appropriations received in the current year to purchase depreciable property and equipment in future periods	14,537	328
Less amortization	(3,342)	(3,212)
Balance at end of year	\$ 43,377	\$ 17,266

12. **Internally restricted equity of Canada**

As at March 31, 2003, the Corporation has internally restricted \$7,000,000 towards the construction of a new Canadian War Museum.

13. **Interest on cash and investments**

Interest on cash and investments is reported as follows:

(in thousands of dollars)	2003	2002
Income earned on unrestricted resources	\$ 1,098	\$ 1,048
Income earned on restricted resources	252	250
Total interest on cash and investments earned in the period	1,350	1,298
Less amounts deferred (Note 10)	(244)	(12)
Total interest on cash and investments recognized as revenue	\$ 1,106	\$ 1,286

14. **Related party transactions**

The Corporation is related to all Government of Canada departments, agencies and Crown corporations. The Corporation incurred expenses for the work and services provided by other government departments and agencies. These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties.

15. **Fair value of financial instruments**

In addition to the descriptions in Notes 3 and 5, the fair value of accounts receivable, restricted cash and investments, and accounts payable and accrued liabilities approximate their respective book value due to their impending maturity.

16. **Commitments**

As at March 31, 2003, the Corporation has entered into long-term contracts for informatics, property leases and building maintenance related services with a remaining value of \$15,850,000. The future minimum payments are as follows:

(in thousands of dollars)

2003-04	\$ 5,832
2004-05	4,543
2005-06	1,958
2006-07	1,997
2007-08	1,520

As at March 31, 2003, the Corporation has entered into long-term contracts for exhibit design and building construction services for the new Canadian War Museum with a remaining value of \$74,585,000. The new building project will be completed in the fiscal year ending March 31, 2006.

17. Parliamentary appropriation

(in thousands of dollars)	2003	2002
Main Estimates amount provided for operating and capital expenditures	\$ 76,221	\$ 49,745
Supplementary estimates and transfers	5,193	3,728
	81,414	53,473
Portion of amount deferred for specific projects	(15,291)	(598)
Deferred revenue used in current year to complete specific projects	1,090	1,010
Amounts used to purchase depreciable property and equipment	(15,736)	(6,784)
Amortization of deferred capital funding	3,342	3,212
Parliamentary appropriation	\$ 54,819	\$ 50,313

18. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

SCHEDULE OF REVENUE
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

SCHEDULE 1

	2003	2002
General admission and programmes	\$ 3,105	\$ 2,707
Boutique Sales	2,016	1,690
CINÉPLUS	1,953	1,974
Facility rental and concessions	1,212	1,113
Interest on cash and investments (Note 13)	1,106	1,286
Parking	866	839
Grants and sponsorships	744	315
Donations	440	453
Travelling exhibits	283	406
Royalties	136	123
Membership	134	103
Publications	116	156
Other	657	741
	\$ 12,768	\$ 11,906

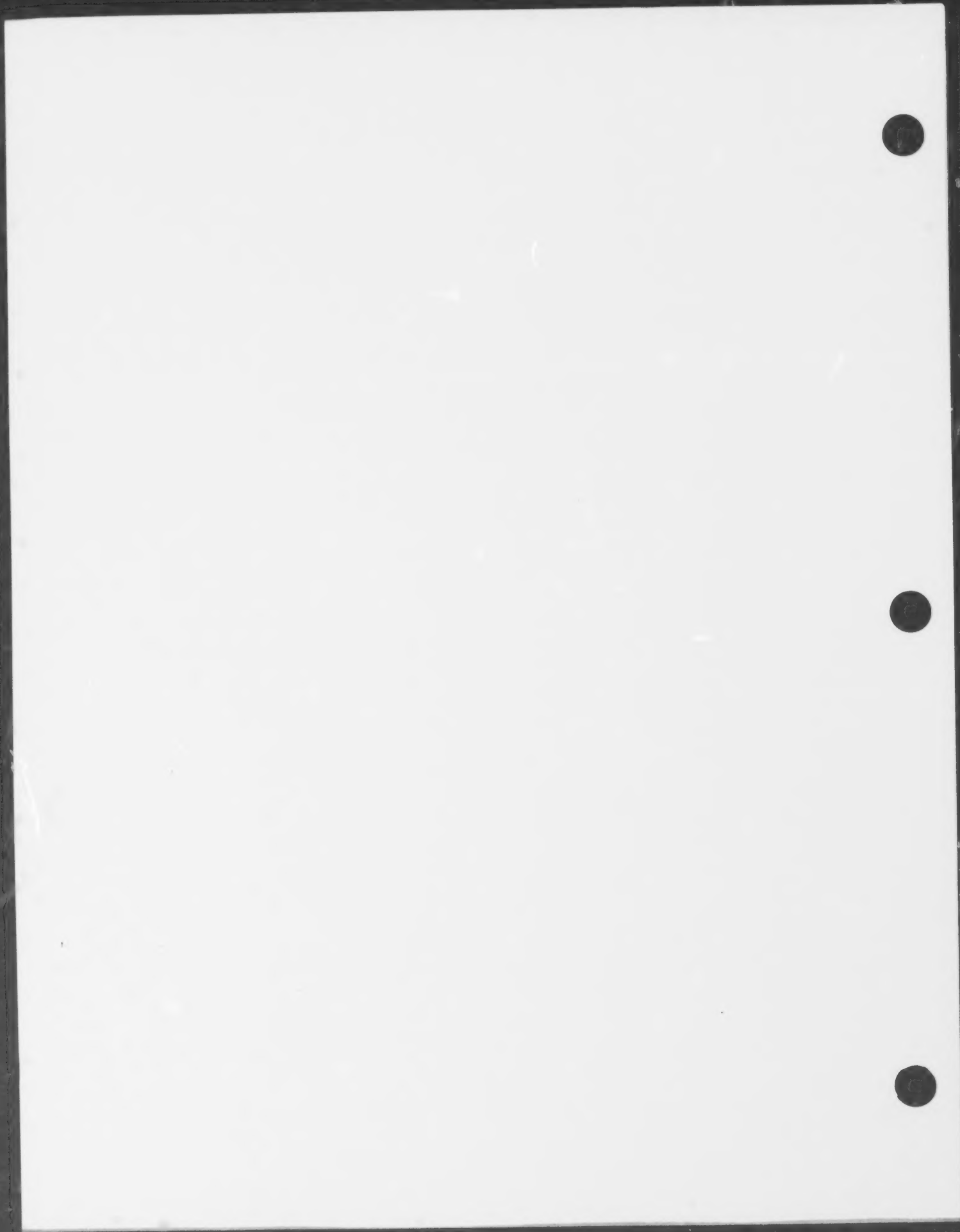
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED MARCH 31
(in thousands of dollars)

SCHEDULE 2

	2003	2002
Personnel costs	\$ 27,988	\$ 25,149
Professional and special services	10,680	10,291
Exhibit design and fabrication	5,995	4,252
Property taxes	5,494	5,374
Amortization	3,342	3,212
Repairs and maintenance	3,209	2,969
Utilities	1,793	1,726
Furniture and fixtures	1,455	1,716
Travel, hospitality and transportation	1,395	1,243
Marketing and advertising	1,186	1,141
Building leases	1,132	891
Cost of goods sold	1,073	1,081
Communications	1,012	846
Collections acquisitions	879	83
CINÉPLUS films	162	214
Rentals	160	152
Other	160	186
	\$ 67,115	\$ 60,526



**Canadian
Museum
of Nature**



Financial Statements

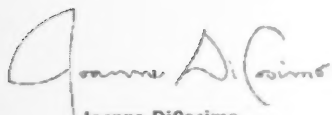
Management's responsibility of financial reporting

Management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements were prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

The Board of Trustees is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit and Finance Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, the Corporation's internal auditors and the Office of the Auditor General of Canada to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls, and other relevant financial matters. The Board of Trustees has reviewed the financial statements with the Office of the Auditor General of Canada and has approved them.

The financial statements have been audited by the Auditor General of Canada. Her report offers an independent opinion on the financial statements to the Minister of Canadian Heritage.


Joanne DiCosimo
President and Chief Executive Officer

May 23, 2003


Maureen Dougan
Vice-President, Corporate Services and Chief Operating Officer

Auditor's report

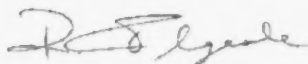
To the Minister of Canadian Heritage

I have audited the balance sheet of the Canadian Museum of Nature as at March 31, 2003 and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.



Richard Flageole, FCA

Assistant Auditor General for the Auditor General of Canada

Ottawa, Canada

May 23, 2003

Balance Sheet as at March 31, 2003

(in thousands of dollars)

	Notes	2003	2002
Assets			
Current			
Cash and short-term investments	3	5,973	8,395
Accounts receivable			
Trade		288	187
Government departments and agencies		1,961	537
Prepaid expenses		754	782
		8,976	9,901
Restricted cash, short-term investments and receivables	3, 4	1,014	1,019
Collections	5	1	1
Capital assets	6	38,781	36,040
		48,772	46,961
Liabilities			
Current			
Accounts payable and accrued liabilities			
Trade		2,847	2,664
Government departments and agencies		2,236	1,840
Current portion - obligation under capital lease	7	219	198
Current portion - loan from Department of Canadian Heritage	7	-	377
Deferred revenue and parliamentary appropriation		2,951	2,910
Employee future benefits	8	184	219
		8,437	8,208
Obligation under capital lease	7	32,924	33,143
Deferred capital funding	9	9,522	6,124
Employee future benefits	8	1,436	1,267
Deferred contributions	10	962	667
		53,281	49,409
Commitments and Contingencies	15, 16		
Endowment	11	285	280
Equity of Canada		(4,794)	(2,728)
		48,772	46,961

The accompanying notes form an integral part of the financial statements.

Approved by the Board of Trustees:

F. Kasravi

Dr. Frederic T. Kasravi, LL.D.
Chairman of the Board of Trustees

R. Kenneth Armstrong

R. Kenneth Armstrong
Chairman of the Audit and Finance Committee

Recommended by Management:

Maureen Dougan

Maureen Dougan
Vice-President, Corporate Services and
Chief Operating Officer

Lynne Ladouceur

Lynne Ladouceur, CA
Senior Full Time Financial Officer

Balance Sheet as at March 31, 2003

(in thousands of dollars)

	Notes	2003	2002
Assets			
Current			
Cash and short-term investments	3	5,973	8,356
Accounts receivable			
Trade		285	187
Government departments and agencies		1,961	537
Prepaid expenses		754	782
		3,976	9,901
Restricted cash, short-term investments and receivables	3, 4	1,014	1,019
Collections	5	1	1
Capital assets	6	33,731	36,040
		43,772	46,961
Liabilities			
Current			
Accounts payable and accrued liabilities			
Trade		2,847	2,664
Government departments and agencies		2,236	1,840
Current portion - obligation under capital lease	7	219	196
Current portion - loan from Department of Canadian Heritage	7	-	377
Deferred revenue and parliamentary appropriation		2,951	2,910
Employee future benefits	8	134	219
		8,437	8,208
Obligation under capital lease	7	32,924	33,141
Deferred capital funding	9	9,572	6,124
Employee future benefits	8	3,436	1,267
Deferred contributions	10	962	667
		53,731	45,409
Commitments and Contingencies	15, 16		
Endowment	11	235	269
Equity of Canada		(4,794)	(2,728)
		43,772	46,961

The accompanying notes form an integral part of the financial statements.

Approved by the Board of Trustees:

F. Kasravi

Dr. Frederic T. Kasravi, LL.D.
Chairman of the Board of Trustees

R. Kenneth Armstrong

R. Kenneth Armstrong
Chairman of the Audit and Finance Committee

Recommended by Management:

Maureen Dougan

Maureen Dougan
Vice-President, Corporate Services and
Chief Operating Officer

Lynne Ladouceur

Lynne Ladouceur, CA
Senior Full Time Financial Officer

Statement of Operations and Equity of Canada for the year ended March 31, 2003

(in thousands of dollars)

	Notes	2003	2002
Revenue			
Commercial operations	12	1,324	1,264
Contributions		1,345	508
Educational programmes		279	402
Interest income		243	344
Scientific services		85	55
Other		54	27
		3,330	2,600
Expenses			
Personnel costs		13,930	12,873
Interest on capital lease obligation		3,302	3,337
Operation and maintenance of buildings		2,704	2,603
Professional and special services		2,481	2,428
Depreciation of capital assets		1,693	1,483
Real property leases and taxes		1,604	1,579
Exhibitions		1,573	652
Information management infrastructure and systems		1,235	1,453
Marketing and communications		797	628
Repairs and maintenance		779	664
Travel		515	411
Freight and cartage		91	91
Purchase of objects for collections		25	6
Other		44	27
		30,773	28,235
Net result of operations before government funding		(27,443)	(25,635)
Parliamentary appropriation	13	25,377	23,177
Net result of operations		(2,066)	(2,458)
Equity of Canada, beginning of year		(2,728)	(270)
Equity of Canada, end of year		(4,794)	(2,728)

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows for the year ended March 31, 2003

(in thousands of dollars)

	2003	2002
Operating activities		
Cash receipts – customers	4,336	2,794
Cash receipts – parliamentary appropriation	23,487	26,062
Cash disbursements – suppliers and employees	(26,138)	(21,861)
Interest received	273	373
Interest paid	(3,303)	(3,336)
	(1,345)	4,032
Financing activities		
Repayment of loan from the Department of Canadian Heritage	(377)	(362)
Appropriation used to purchase depreciable capital assets	3,922	2,189
Obligation under capital lease	(198)	(179)
Endowment increase	5	–
	3,352	1,648
Investing activities		
Acquisition of capital assets	(4,434)	(2,169)
Decrease (increase) in restricted cash, short-term investments and receivables	5	(101)
	(4,429)	(2,290)
(Decrease) increase in cash and short-term investments	(2,422)	3,390
Cash and short-term investments, beginning of year	8,395	5,005
Cash and short-term investments, end of year	5,973	8,395

The accompanying notes form an integral part of the financial statements.

Notes to Financial Statements for the year ended March 31, 2003

1. Authority and mission

The Canadian Museum of Nature was established by the *Museums Act* on July 1st, 1990, and is an agent, Crown corporation named in Part I of Schedule III to the *Financial Administration Act*.

The Corporation's mission is to increase, throughout Canada and internationally, interest in, knowledge of and appreciation and respect for the natural world by establishing, maintaining and developing for research and posterity a collection of natural history objects, with special but not exclusive reference to Canada, and by demonstrating the natural world, the knowledge derived from it and the understanding it represents.

2. Significant accounting policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies.

A) Cash and Short-term Investments

Cash and short-term investments consist of balances with banks and investments in money market instruments with terms to maturity of 12 months or less. These investments are carried at cost, which approximates market.

B) Collections

The Canadian Museum of Nature holds and preserves invaluable collections of natural history specimens for the benefit of Canadians, present and future. The collections form the largest part of the assets of the Corporation. The collections are shown as an asset on the balance sheet at a nominal value of \$1,000 due to practical difficulties in determining a meaningful value for these assets. Objects purchased for the collections are recorded as an expense in the year of acquisition. Objects donated to the Corporation are not recorded in the books of accounts.

C) Capital Assets

Capital assets are recorded at cost. Assets recorded as capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Depreciation is calculated on the straight-line method using rates based on the estimated useful life of the assets as follows:

Property under leasehold improvements	Land	Buildings	Equipment	Leasehold improvements	Other	Other
35 years	35 years	10 years	10 years	10 years	5 years	3 years

Major leasehold improvements are capitalized and depreciated over the term of the respective leases to a maximum period of five years.

Amounts included in renovation work in progress are transferred to the appropriate capital asset classification upon completion, and are then depreciated according to the Corporation's policy.

Material and equipment acquired for the purpose of the design, development and maintenance of exhibits are charged to operations in the year of acquisition.

D) Employee Future Benefits

i) Pension benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on multiple of the employee's required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

ii) Severance benefits

Employees are entitled to severance benefits, as provided for under labor contracts and conditions of employment. The cost of these benefits is accrued as the employees render the services necessary to earn them. Management determined the accrued benefit obligation using a method based upon assumptions and its best estimates. These benefits represent the only obligation of the Corporation that entails settlement by future payment.

E) Parliamentary Appropriation

The parliamentary appropriation for operating expenditures is recognized as revenue in the fiscal year for which it is approved. The portion of the parliamentary appropriation used to purchase depreciable capital assets is recorded as deferred capital funding and amortized on the same basis and over the same period as the related capital assets. Parliamentary appropriations for specific projects are deferred and recognized on the Statement of Operations in the year in which the related expenses are incurred.

F) Contributions

The Corporation follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted are deferred and recognized as revenue in the year in which the related expenses are recognized. Restricted investment income is recognized as revenue in the year in which the related expenses are incurred.

Contributions received in a form other than cash are recorded at their fair value at the date they are received by the Corporation. Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

G) Endowment

The endowment consists of restricted donations received by the Corporation. The endowment principal is required to be maintained intact. The investment income generated from the endowment is treated as a deferred contribution and must be used in accordance with the purpose established by the donors. Endowments received do not flow through the Statement of Operations but rather are credited to endowments directly.

H) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the year. Employee-related liabilities and estimated useful lives of capital assets are the most significant items where estimates are used. Actual results could differ from those estimated.

3. Cash and short-term investments

(In thousands of dollars)

	2003	2002
Cash	1,039	1,327
Short-term investments	4,854	7,068
	5,893	8,395

The Corporation invests operating and restricted funds in the short-term money market instruments that are rated AA or better and guaranteed by the Government of Canada, a provincial government or the Royal Bank of Canada. The investment vehicles consist primarily of banker's acceptance, promissory notes and term deposits. The overall portfolio yield as at March 31, 2003 was 2.89% (2002 - 2.06%) and the average term to maturity is 13 days (2002 - 43 days). The fair market value of the investment portfolio at year-end approximates the book value.

4. Restricted cash, short-term investments and receivables

Restricted cash, short-term investments and receivables include deferred contributions, funds received for the Endowment and amounts receivable that can be reasonably estimated and for which collection is reasonably assured. Restricted cash accounts are managed in accordance with the donor's wishes and are invested in accordance with investment policies of the Corporation.

5. Collections

The natural history collections consist of over 10 million specimens and grew by 24,210 items this fiscal year (2002 - 23,486). They are an exceptional scientific resource that is available nationally and internationally for research, exhibits and education.

- The collections are divided into four discipline related groups, being:
 - the Earth Sciences collection (minerals, rocks, gems, fossils)
 - the Vertebrates collection (mammals, birds, fish, amphibians, reptiles)
 - the Invertebrates collection (molluscs, insects, crustaceans, parasites, worms)
 - the Botany collection (algae, vascular plants, mosses, lichens)

In addition, conservation research is conducted to improve the management of the collections.

The Corporation has incurred \$1.4 million in 2003 (2002 - \$1.2 million) for the management, protection and conservation of its collections.

6. Capital assets

(In thousands of dollars)

	Cost	Accumulated depreciation	2003 Net book value	2002 Net book value
Land	555	-	555	555
Property under capital lease	35,640	6,941	28,699	29,091
Collection cabinets and compactors	3,653	706	2,947	2,925
Computer equipment and software	3,517	3,108	409	74
Research equipment	2,688	1,542	1,146	759
Furniture and office equipment	1,321	896	425	425
Leasehold improvements	2,187	2,035	152	140
Technical equipment	389	280	109	103
Motor vehicles	56	51	5	13
Renovation work in progress	5,132	-	5,132	1,940
	54,440	15,659	38,781	36,040

The Victoria Memorial Museum Building and grounds are owned by the Government of Canada and consequently are not included in capital assets.

7. Capital lease obligation

A) The Natural Heritage Building (NHB) houses the Canadian Museum of Nature natural history collections and administrative functions, on the Corporation's site in Gatineau, Quebec. The Corporation is acquiring the building through a lease purchase agreement with a term of 35 years. It is committed to pay rent under all circumstances and in the event of termination of the lease, at the Corporation's option or otherwise, pay sufficient rent to repay all financing on the building. Management intends to completely discharge its obligation under the lease and obtain free title to the building in 2031.

B) In 1997-98, the Corporation secured financing for the additional construction and fit-up costs of the NHB with the Department of Canadian Heritage. This loan is now fully reimbursed.

Future minimum lease repayments, by year and in aggregate, under the financing obligation are as follows:

(in thousands of dollars)

	Obligation under capital lease
2004	3,500
2005	3,500
2006	3,500
2007	3,500
2008	3,500
Thereafter	82,750
Total minimum future payments	99,750 ⁽¹⁾
Deduct: imputed interest	(66,607)
Present value of financing obligations	33,143 ⁽²⁾

⁽¹⁾ The amounts payable under the capital lease are based on the fixed interest rate of 9.88%, for a period of 35 years, established at the time of signing the lease.
⁽²⁾ The present value of the capital lease obligation based on a current market interest rate of 7.8% is estimated at \$41 million.

8. Employee future benefits

i) Pension benefits

The Public Service Superannuation Plan requires the Corporation to contribute at a rate of 2.14 times the employees' contribution (2002 - 2.14). The Corporation's contribution to the plan during the year was \$1,303,600 (2002 - \$1,126,000).

ii) Severance benefits

The corporation provides severance benefits to its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan is as follows:

(in thousands of dollars)

	2003	2002
Accrued benefit obligation, beginning of year	1,406	1,274
Expense for the year	287	298
Benefits paid during the year	(153)	(154)
Accrued benefit obligation, end of year	1,620	1,466
Short term portion	104	219
Long term portion	1,436	1,267
	1,620	1,466

9. Deferred capital funding

Deferred capital funding represents unamortized parliamentary appropriation used to purchase depreciable capital assets. Changes in the deferred capital funding balance are as follows:

(in thousands of dollars)

	2003	2002
Beginning balance	6,124	4,417
Appropriation used to purchase depreciable capital assets	3,922	2,189
Amortization of deferred capital funding	(524)	(462)
Ending balance	9,522	6,124

10. Deferred contributions

Deferred contributions represent unrecognized externally restricted donations and investment income. The changes in the deferred contribution balance and the components of this balance are as follows:

(in thousands of dollars)

	2003	2002
Beginning balance	667	516
Contributions received during the year	1,397	608
Amounts recognized in the year	(1,102)	(457)
Ending balance	962	667
Deferred contributions are comprised of:		
Funds restricted for research purposes	71	77
Funds restricted for programming purposes	889	581
Restricted endowment fund interest	2	9
	962	667

11. Endowment

The Corporation maintains an endowment in the principal amount of \$295,000 (2002 - \$280,000) received from Anne and Henry Howden, which included a significant entomological collection. The endowment was established to enable professional studies and research of entomological collections for the Museum.

The principal of the Systematic Entomology Endowment Fund can not be expended. Accumulated interest earned from the endowment must be expended for specified purposes and the residual balance totalled \$7,514 at March 31, 2003 (2002 - \$9,710) which is included in deferred contributions (Note 10).

In the event that the Corporation decides not to maintain entomological collections, the Systematic Entomology Endowment Fund shall be transferred, along with any entomological collections, to the Royal Ontario Museum.

12. Commercial operations

Commercial operations revenue is comprised as follows:

(in thousands of dollars)

	2003	2002
Admission fees	643	600
Rental of facilities	369	391
Parking	208	172
Boutique and cafeteria leases	73	68
Printing revenues	16	26
Publishing royalties	10	7
	1,324	1,264

13. Parliamentary appropriation

To achieve its mission, the Corporation relies on government funding. This government funding is comprised as follows:

(in thousands of dollars)

	2003	2002
Appropriation approved:		
Capital and Operating Budget	25,358	23,691
Supplementary budgets	3,030	2,544
	28,389	26,235
Loan repayment to the Department of Canadian Heritage	377	377
Portion of parliamentary appropriation deferred for future capital projects	(2,845)	(2,865)
Deferred revenue used in current year to complete specific projects	2,854	1,127
Appropriation used to purchase depreciable capital assets	(3,922)	(2,163)
Amortization of deferred capital funding	524	482
Appropriation used	25,377	23,177

14. Related party transactions

The Corporation is related to all Government of Canada departments, agencies and Crown corporations. The Corporation incurred expenses for the work and services provided by other government departments and agencies. These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties.

15. Contractual commitments

As of March 31, 2003, the Corporation has contracts for information systems and building maintenance services with a remaining value of \$7,309,000. Future minimum payments under these contracts are as follows:

(in thousands of dollars)	
2003-04	4,442
2004-05	2,501
2005-06	296
2006-07	70

As of March 31, 2003, the Corporation also has long-term contracts for building construction and architects services for the refit of the Victoria Memorial Museum Building with a remaining value of \$9,579,000. This project will be completed in the fiscal year ending March 31, 2007.

16. Contingency

In 1994, a pay equity complaint was filed by the Public Service Alliance of Canada (PSAC) against the Corporation alleging discrimination in wages based on gender inequity. During 2001-02, the PSAC and the Corporation have developed a new Job Classification and Evaluation Plan. This Plan has been used to determine relativity between jobs and to ensure that there is no gender based wage discrimination within jobs. The new plan has been implemented retroactively to June 15, 1999. In 2002, the PSAC filed a second pay equity complaint against the Treasury Board and specific separate employers, including the Corporation.

The Corporation cannot determine and assess the outcome of these complaints on its operations with certainty. A provision for these expenses has been recorded based on management's best estimates. The effect, if any, of ultimate resolution of these matters will be accounted for when determinable.

17. Comparative Figures

The 2002 comparative figures have been reclassified to conform to the 2003 financial statement presentation.

Canadian Museum of Nature
www.nature.ca

**Victoria Memorial
Museum Building**
240 McLeod Street
Ottawa, Ontario

Natural Heritage Building
1740 Pink Road
Gatineau, Quebec

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A version of this report is available
on the Canadian Museum of Nature
Web site at www.nature.ca

**Canadian
Race
Relations
Foundation**



Management's Responsibility for Financial Statements

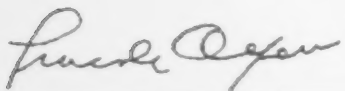
The accompanying financial statements of the Canadian Race Relations Foundation are the responsibility of management and have been approved by the board of directors. These financial statements have been audited by Hilborn Ellis Grant LLP, Chartered Accountants.

In support of its responsibility, management has developed and maintained books of accounts, records, financial and management controls and information systems. These are designed to provide reasonable assurance that the Foundation's resources are managed prudently, that its assets are safeguarded and controlled, and that its financial information is reliable. The Foundation carries out its responsibilities for the financial statements mainly through the Finance Committee. The Finance Committee meets with management and the external auditor to review internal controls, auditing and other relevant financial matters. In addition, the Finance Committee is responsible for monitoring the performance of the investment managers and the endowment fund.

During this fiscal year, the Foundation funded 30 Initiatives Against Racism (IAR) projects, two commissioned research projects, and continued funding for four research contracts. The CRRF's biannual Award of Excellence was held in Toronto, Ontario where five organizations were recognized with cash prizes for their work in anti-racism efforts-- more than 150 educators, activists and students from across the country attended the three-day symposium to share their best practices. This year, the Foundation also presented the first Award for Lifetime Achievement to the Honourable Lincoln Alexander, founding chair of the Canadian Race Relations Foundation. The CRRF further strengthened its effort in providing public education through various activities, including speaking engagements and distribution of the report *Learning about Walking in Beauty: Placing Aboriginal Studies in Canadian Classrooms* to educators across the country. During the year, the Foundation held a number of workshops and community forums. A three-day conference was held in Edmonton to discuss the strengthening of Canada's domestic agenda against racism. To reach out to local communities, the CRRF engaged in seminars and consultations nationally and internationally and facilitated the "Summit" on Policing, Race Relations and Racial Profiling.

The investment accounts this year experienced a negative return primarily due to ongoing global, political and financial uncertainties. The outbreak of war in the Middle East, although expected, has lifted energy prices and slowed economic growth. During this fiscal year, the accounts declined by 7.11%, performing 3.83% below the established benchmark return. During this period of low investment returns, we mounted our first ever major fundraising event.

It is anticipated that the markets will remain volatile in the coming months, although currently on a positive upswing. As such, we will continue to work closely with our investment advisors to strengthen our ability to maximize our investment returns. As well, we have begun to create an infrastructure for further fundraising initiatives to ensure other sources of revenue are increased. We will continue our efforts to build our Capital Preservation Fund and Reserve Fund to preserve the endowment and to provide stability for the future.



Chair



Secretary-Treasurer



CANADIAN RACE RELATIONS FOUNDATION

Auditors' Report

To the Directors of the
Canadian Race Relations Foundation

We have audited the statement of financial position of the **Canadian Race Relations Foundation** as at March 31, 2003 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 29, 2003, except as to note 13
which is as of June 12, 2003

Hilborn Ellis Grant LLP
Chartered Accountants

Hilborn Ellis Grant LLP

CANADIAN RACE RELATIONS FOUNDATION
CRRF  **FCRR**
FONDATION CANADIENNE DES RELATIONS RACIALES

CANADIAN RACE RELATIONS FOUNDATION

Statement of Financial Position

March 31, 2003	2003 \$	2002 \$
ASSETS		
Current Assets		
Cash	113,846	87,403
Investments (notes 3 and 13)	-	2,223,688
Income receivable	112,047	144,475
Prepaid expenses and sundry receivables	112,395	20,413
	<u>338,288</u>	<u>2,475,979</u>
Investments (note 3)	23,548,450	24,000,000
Capital assets (note 4)	51,443	64,249
	<u>23,938,181</u>	<u>26,540,228</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	167,205	69,853
NET ASSETS		
Net assets invested in capital assets	51,443	64,249
Net assets restricted for Education and Training Centre (note 5)	57,937	-
Net assets restricted for endowment (note 6)	24,000,000	24,000,000
Net assets internally restricted for capital preservation (note 7)	-	1,166,562
Net assets internally restricted for reserve (note 8)	-	1,239,564
Deficiency in unrestricted net assets	(338,404)	-
	<u>23,770,976</u>	<u>26,470,375</u>
	<u>23,938,181</u>	<u>26,540,228</u>

Approved on behalf of the Board:

Patrick Coe Director
Agis Gaudin Director

CANADIAN RACE RELATIONS FOUNDATION

Statement of Operations

Year ended March 31, 2003	2003 \$	2002 \$
Revenues	1,003,085	1,501,900
Interest and dividends (note 3)	(97,401)	(242,198)
Loss on sale of investments	31,213	-
Sponsorships, donations and honoraria	10,425	14,335
Publications and conferences	209,550	-
Fundraising (note 5)	<u>1,156,872</u>	<u>1,274,037</u>
Expenses	34,010	36,387
Amortization	180,797	21,247
Award of Excellence symposium (note 9)	151,613	-
Award of Excellence gala dinner (note 5)	127,675	128,733
Communication	142,370	58,161
Conferences, symposia and consultations	136,516	105,529
Board of directors' honoraria and travel	6,285	3,542
Information systems and development	5,783	5,666
Library	43,710	41,850
Office and general	16,096	17,354
Professional fees	211,420	272,991
Public education (note 10)	105,911	107,750
Rent	77,318	90,331
Research	666,563	620,767
Salaries and benefits	16,823	19,246
Staff recruitment and development	<u>1,922,890</u>	<u>1,529,554</u>
Excess of expenses over revenues before the following	(766,018)	(255,517)
Provision for decline in value of investments to market value	<u>(1,933,381)</u>	-
Excess of expenses over revenues for year	<u><u>(2,699,399)</u></u>	<u><u>(255,517)</u></u>

CANADIAN RACE RELATIONS FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2003

	Invested in Capital Assets \$	Restricted for Education and Training Centre \$ <i>(note 5)</i>	Restricted for Endowment \$ <i>(note 6)</i>
Balance, beginning of year	64,249	-	24,000,000
Excess of revenues over expenses (expenses over revenues) for year	(34,010)	57,937	-
Net investment in capital assets	21,204	-	-
Internally imposed restrictions	-	-	-
Balance, end of year	51,443	57,937	24,000,000

CANADIAN RACE RELATIONS FOUNDATION

Restricted for Capital Preservation \$ (note 7)	Restricted for Reserve \$ (note 8)	Unrestricted for Operations \$	2003 Total \$	2002 Total \$
1,166,562	1,239,564	-	26,470,375	26,725,892
-	-	(2,723,326)	(2,699,399)	(255,517)
-	-	(21,204)	-	-
(1,166,562)	(1,239,564)	2,406,126	-	-
-	-	(338,404)	23,770,976	26,470,375

CANADIAN RACE RELATIONS FOUNDATION

Statement of Cash Flows

Year ended March 31, 2003	2003 \$	2002 \$
Cash flows from operating activities		
Excess of expenses over revenues for year	(2,699,399)	(255,517)
Items not requiring a current cash payment		
Amortization	34,010	36,387
Loss on sale of investments	97,401	242,198
Provision for decline in value of investments to market value	1,933,381	-
	(634,607)	23,068
Changes in non-cash working capital		
Decrease (increase) in income receivable	(43,085)	1,940
Decrease (increase) in prepaid expenses and other receivables	(16,469)	18,184
Increase (decrease) in accounts payable and accrued liabilities	97,351	(68,764)
	(596,810)	(25,572)
Cash flows from investing activities		
Proceeds from sale of investments	16,173,924	22,343,185
Purchase of investments	(15,529,467)	(21,756,831)
Net additions to capital assets	(21,204)	(9,772)
	623,253	576,582
Cash flows from financing activities		
Decrease in bank indebtedness	-	(463,607)
Net increase in cash during year	26,443	87,403
Cash, beginning of year	87,403	-
Cash, end of year	113,846	87,403

	2003 \$	2002 \$
Supplementary Disclosure of Cash Flow Information		
Interest paid	-	-
Income taxes paid	-	-

CANADIAN RACE RELATIONS FOUNDATION

Notes to Financial Statements

March 31, 2003

1. Description of Organization

The Canadian Race Relations Foundation ("the Foundation") was established by way of federal government legislation (Bill C-63 - "The Canadian Race Relations Foundation Act", 1991).

The purpose of the Foundation is to facilitate, throughout Canada, the development, sharing and application of knowledge and expertise in order to contribute to the elimination of racism and all forms of racial discrimination in Canadian society.

The Foundation is a registered charity under the Income Tax Act and, as such, is not subject to income tax.

2. Significant Accounting Policies

a) Fund accounting

The Foundation follows the restricted fund method of accounting for contributions.

b) Revenue recognition

Restricted contributions are recognized as revenue of the appropriate fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Endowment contributions are recognized as revenue of the Endowment Fund.

Unrestricted contributions are recognized as revenue when received.

c) Investments

Investments are recorded at the lower of average cost and market value.

d) Investment transactions and income recognition

Investment transactions are accounted for on the trade date. Income from investments is recognized on the accrual basis. Interest is accrued based on the number of days the investment is held during the year. Dividends are accrued as of the ex-dividend date. Realized gains and losses from investment transactions and the unrealized appreciation or depreciation in the value of investments are computed on an average cost basis.

CANADIAN RACE RELATIONS FOUNDATION

Notes to Financial Statements (continued)

March 31, 2003

2. Significant Accounting Policies (continued)

e) Capital assets

Capital assets are recorded at acquisition cost. Amortization is provided for over the estimated useful life of the assets on a straight-line basis as follows:

Office furniture and equipment	- 5 years
Computer hardware	- 3 years
Computer software	- 3 years
Leasehold improvements	- over term of sub-lease

Amortization is not being provided for artwork.

f) Foreign currency translation

Transactions in a foreign currency have been translated to Canadian dollars at the rate of exchange prevailing at the month end closest to the transaction. The market value of investments quoted in a foreign currency and accounts denominated in a foreign currency have been translated to Canadian dollars at the rates of exchange prevailing at the year end. Gains and losses are taken into the current year's income.

g) Financial instruments

The Foundation's financial instruments consist of cash, investments, income receivable, sundry receivables and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

h) Measurement uncertainty

Financial statements are based on representations that often require estimates to be made in anticipation of future transactions and events and include measurements that may, by their nature, be approximations.

CANADIAN RACE RELATIONS FOUNDATION

Notes to Financial Statements (continued)

March 31, 2003

3. Investments

	Average Cost \$	Market Value \$
Investment portfolio	25,481,830	23,548,450

A portion of the investment portfolio, related to the net assets restricted for endowment of \$24,000,000, is presented as a non-current asset as the underlying endowment contribution is to be maintained permanently by the Foundation and is not available to fund the activities of the Foundation. The cost amount of the investment portfolio in excess of the net assets restricted for endowment of \$24,000,000 is presented as a current asset, as it is available to fund the activities of the Foundation. At year end, all of the investment portfolio is presented as a non-current asset as the market value of the investment portfolio is less than the net assets restricted for endowment of \$24,000,000.

The average cost and market value of the investment portfolio at March 31, 2002 was \$26,223,688 and \$27,057,126, respectively. At March 31, 2002, of the \$26,223,688 investment portfolio cost, \$2,223,688 was presented as a current asset representing the cost amount of the investment portfolio in excess of the net assets restricted for endowment of \$24,000,000. The excess of the market value of the investment portfolio in relation to the cost amount of the investment portfolio (\$833,438) was included in the net assets restricted for capital preservation.

Investment counsel fees paid by the Foundation are offset against interest and dividend income. During the year, these fees amounted to \$156,760 (2002 - \$173,939).

4. Capital Assets

	Cost \$	Accumulated Amortization \$	2003 Net Book Value \$	2002 Net Book Value \$
Office furniture and equipment	106,972	88,825	18,147	29,666
Computer hardware	116,811	103,424	13,387	11,772
Computer software	21,903	18,219	3,684	-
Leasehold improvements	23,707	23,707	-	8,811
Artwork	16,225	-	16,225	14,000
	285,618	234,175	51,443	64,249

CANADIAN RACE RELATIONS FOUNDATION

Notes to Financial Statements (continued)

March 31, 2003

5. Net Assets Restricted for Education and Training Centre

The proceeds of fundraising from the Award of Excellence gala dinner in excess of expenses represent restricted contributions that are designated for the establishment of an education and training centre. The purpose of the centre is the development and delivery of race relations education and training programs and materials to public and private sector groups.

6. Net Assets Restricted for Endowment

The Foundation received an endowment contribution of \$24,000,000 at the date of establishment. The endowment contribution was comprised of \$12,000,000, which was part of the Redress Agreement with the National Association of Japanese Canadians, and \$12,000,000 from the federal government.

The Canadian Race Relations Foundation Act stipulates that this endowment contribution is to be used only for investment and is not available to fund the Foundation's activities. Investment income earned from the endowment contribution is available to fund the Foundation's activities.

7. Net Assets Internally Restricted for Capital Preservation

The Foundation has established a capital preservation policy to facilitate the recognition of inflation in order to preserve the earnings capability of the net assets restricted for endowment. At March 31, 2003, the net assets internally restricted for capital preservation is \$nil (2002 - \$2,000,000). This internal restriction is subject to variances based upon the unrealized appreciation in the value of investments at any point in time and direction given by the Finance Committee of the Foundation.

	2003 \$	2002 \$
Net assets internally restricted from operations, prior year	1,166,562	2,969,410
Current year - transfer to operations	(1,166,562)	(563,284)
- transfer to reserve	-	(1,239,564)
Net assets internally restricted from operations, end of year	-	1,166,562
Unrealized appreciation in the value of investments (note 3)	-	833,438
Total net assets internally restricted for capital preservation	-	2,000,000

CANADIAN RACE RELATIONS FOUNDATION

Notes to Financial Statements (continued)

March 31, 2003

8. Net Assets Internally Restricted for Reserve

The Foundation has established a reserve policy to provide stability to the operations of the Foundation from year to year in the event of a shortfall in investment income.

Operational surplus in excess of any transfer to the net assets internally restricted for capital preservation is transferred to the net assets internally restricted for reserve at the end of each fiscal year.

9. Award of Excellence Symposium

The Foundation recognizes positive initiatives in the elimination of racism and the promotion of harmonious race relations through an Award of Excellence symposium held every two years. The Award of Excellence symposium was held in March 2003. The next Award of Excellence symposium will be in 2005.

10. Public Education

Public education during the year included grants awarded in connection with Initiatives Against Racism, the production of Unite Against Racism and public education initiatives undertaken by the Foundation on the issue of racial profiling and related issues.

The Foundation received donated television and radio airtime valued at approximately \$87,000 (2002 - \$95,000) during the year.

11. Commitments

- a) The Foundation, on the expiry effective March 31, 2003 of its current sub-lease of office premises, entered into a new lease agreement for office premises commencing April 1, 2003 and expiring March 31, 2008. The Foundation has the option to terminate the lease after the second year of the lease agreement. The approximate annual payments of rent, business taxes and operating costs pursuant to the new lease agreement will be \$154,000 per year.
- b) As at March 31, 2003 the Foundation is committed to fund approximately \$116,000 in research and public education grants during the fiscal year ending March 31, 2004.

12. Line of Credit

During the year, the Foundation entered into an unsecured operating line of credit with HSBC Bank Canada. The line of credit is limited to \$150,000. Interest is payable at the bank's prime rate plus 1.5% on the outstanding balance. The line of credit has not been drawn upon as at March 31, 2003.

13. Subsequent Event

The investment portfolio, as referred to in note 3 to these financial statements, had a market value of \$25,243,333 as at June 10, 2003.



**Canadian
Tourism
Commission**



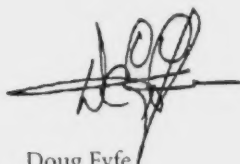
MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Commission is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report together with audited financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. Other financial and operational information appearing elsewhere in the Annual Report is consistent with that contained in the financial statements.

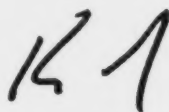
Management maintains internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Tourism Commission Act* and by-laws of the Commission. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Commission are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Commission and performs other such functions as are assigned to it.

The Commission's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon.



Doug Fyfe
President
and Chief Executive Officer



Karin Zabel
Vice President Finance
and Chief Financial Officer

February 14, 2003

AUDITOR'S REPORT

OFFICE OF THE AUDITOR GENERAL



BUREAU DU VÉRIFICATEUR GÉNÉRAL

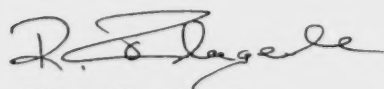
To the Minister of Industry

I have audited the balance sheet of the Canadian Tourism Commission as at 31 December, 2002 and the statements of operations and deficit of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at 31 December, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Commission that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canadian Tourism Commission Act* and the by-laws of the Commission.



Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
14 February, 2003

BALANCE SHEET

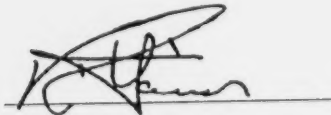
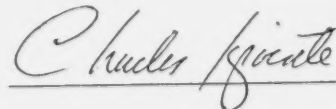
AS AT DECEMBER 31 (in thousands)

	<u>2002</u>	<u>2001</u>
Assets		
Current assets		
Cash	\$ 11,119	\$ 10,560
Accounts receivable		
Government of Canada	2,864	7,713
Parliamentary appropriations (note 8)	6,910	-
Other	7,414	2,656
Prepaid expenses	1,007	2,447
Inventories	110	139
	<u>29,424</u>	<u>23,515</u>
Capital assets (note 4)	<u>4,131</u>	<u>1,430</u>
	<u>\$ 33,555</u>	<u>\$ 24,945</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)		
Government of Canada	\$ 1,916	\$ 464
Other	25,334	14,326
Deferred revenue	355	-
Deferred parliamentary appropriations (note 8)	-	6,905
	<u>27,605</u>	<u>21,695</u>
Employee future benefits (note 6)	4,406	3,804
Deferred capital funding (note 7)	<u>4,131</u>	<u>1,430</u>
	<u>8,537</u>	<u>5,234</u>
Deficit of Canada (note 3)	<u>(2,587)</u>	<u>(1,984)</u>
	<u>\$ 33,555</u>	<u>\$ 24,945</u>

Commitments and contingencies (notes 10 & 11)

The accompanying notes form an integral part of the financial statements

Approved on behalf of the Board of Directors:

STATEMENT OF OPERATIONS AND DEFICIT OF CANADA

FOR THE YEAR ENDED DECEMBER 31 (in thousands)

	<u>2002</u>	<u>2001</u>
Revenue		
Partnership contributions	\$ 13,801	\$ 7,954
Other	<u>992</u>	<u>711</u>
	<u>14,793</u>	<u>8,665</u>
Expenses		
Marketing and sales	104,423	82,776
Information services	6,921	6,368
Corporate services	12,599	11,462
Amortization of capital assets	<u>878</u>	<u>505</u>
	<u>124,821</u>	<u>101,111</u>
Net results of operations before parliamentary appropriations and amortization of deferred capital funding	(110,028)	(92,446)
Parliamentary appropriations (note 8)	108,299	90,472
Amortization of deferred capital funding (note 7)	<u>878</u>	<u>505</u>
	<u>109,177</u>	<u>90,977</u>
Net results of operations for the year	<u>(851)</u>	<u>(1,469)</u>
Deficit of Canada, beginning of year	(1,984)	(1,515)
Services provided without charge by Government departments and agencies (note 12)	<u>248</u>	<u>1,000</u>
Deficit of Canada, end of year	<u><u>\$ (2,587)</u></u>	<u><u>\$ (1,984)</u></u>

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31 (in thousands)

	<u>2002</u>	<u>2001</u>
Operating activities		
Net results of operations	\$ (851)	\$ (1,469)
Items not affecting cash		
Amortization of capital assets	878	505
Amortization of deferred capital funding	(878)	(505)
Changes in non cash working capital	560	10,560
Services provided without charge	248	1,000
Change in employee future benefits	<u>602</u>	<u>469</u>
Net cash provided by operations	<u>559</u>	<u>10,560</u>
Investing activities		
Acquisition of capital assets	<u>(3,579)</u>	<u>(1,033)</u>
Financing activities		
Parliamentary appropriations used for the acquisition of capital assets	2,743	1,033
Other funding used for the acquisition of capital assets	<u>836</u>	<u>-</u>
	<u>3,579</u>	<u>1,033</u>
Increase in cash for the year	559	10,560
Cash, beginning of year	<u>10,560</u>	<u>-</u>
Cash, end of year	<u>\$ 11,119</u>	<u>\$ 10,560</u>

The accompanying notes form an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2002

1. Authority and objectives

The Canadian Tourism Commission (the Commission) was established on January 2, 2001 under the *Canadian Tourism Commission Act* (the Act) and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Commission is not subject to income taxes.

As stated in section 5 of the Act, the Commission's mandate is to:

- sustain a vibrant and profitable Canadian tourism industry
- market Canada as a desirable tourist destination
- support a cooperative relationship between the private sector and the governments of Canada, the provinces and the territories with respect to Canadian tourism; and
- provide information about Canadian tourism to the private sector and the governments of Canada, the provinces and territories.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. A summary of significant policies follows:

a) Parliamentary appropriations

The Commission is mainly financed by the Government of Canada and agencies through parliamentary appropriations. Parliamentary appropriations are recognized in the year in which the related expenditures are incurred.

Appropriations for depreciable capital assets are recorded as deferred capital funding on the balance sheet and amortized on the same basis and over the same periods as the related capital assets. Upon disposition of funded depreciable capital assets, the Commission recognizes into income all remaining deferred capital funding related to these capital assets.

As a result of the Commission's year end (December 31) being different than the Government's (March 31), the Commission will normally have either a Parliamentary appropriations receivable balance or a deferred Parliamentary appropriations balance at year end.

b) Partnership contributions

The Commission conducts marketing activities in partnership with a variety of Canadian and foreign organizations. Where the Commission assumes the financial risks of conducting a marketing activity, partnership contributions are recognized as income in the same period as the related costs are incurred. Partnership contributions received for which the related costs have yet to be incurred are deferred.

c) Other revenues

Other revenues mainly consist of revenue from royalties, licence fees and interest.

d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. Revenue and expense items are translated at average exchange rates during the year. Translation gains and losses are included in income for the year.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2002

e) Capital assets

Capital assets are recorded at cost and amortized on the straight-line basis over the estimated useful life of the assets as follows:

Leasehold improvements	Remaining term of lease
Office furniture	5 years
Computer equipment and software	3 and 5 years

Capital assets transferred to the Commission as at January 2, 2001 are recorded at their historical cost, less accumulated amortization, in accordance with the above rates.

f) Employee future benefits

(i) Pension benefits

Canadian employees of the Commission participate in the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by the Commission to the Plan are 2.14 times the employees' contributions on account of current service. These contributions represent the total pension obligations of the Commission for these employees and are charged to operations on a current basis. The Commission is not required under present legislation to make contributions with respect to any actuarial deficiencies of the Public Service Superannuation Account.

Foreign employees either receive a lump sum pension entitlement on retirement or are members of various local defined contribution plans. Employer contributions vary depending upon the plan. For defined contribution plans, contributions made to the plans represent the total pension obligations of the Commission for these employees and are charged to operations on a current basis. For defined benefit plans, the cost of future pension benefits are recognized over the periods in which the employees render services to the Commission and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. In these circumstances, the benefit plans are not pre-funded and thus have no assets.

(ii) Non-pension benefits

Canadian and foreign employees of the Commission are entitled to specific non-pension benefits on or after termination or retirement, as provided for under various collective agreements or conditions of employment. The Commission recognizes the cost of future non-pension benefits over the periods in which the employees render services to the entity and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. These benefit plans are not pre-funded and thus have no assets.

g) Services provided without charge by Government departments and agencies

Services provided without charge by Government departments and agencies are recorded as operating expenses by the Commission at their estimated fair value. A corresponding amount is credited directly to the Deficit of Canada.

h) Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense during the reporting periods. Actual results could differ from those estimates. The most significant estimates involve the determination of employee future benefits.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2002

3. Deficit of Canada

As indicated in Note 1, on January 2, 2001 the Canadian Tourism Commission became a Crown corporation and all assets and liabilities of the Commission as a Special Operating Agency of the Department of Industry were transferred to the Commission. The net book value of the elements transferred was then credited to the Deficit of Canada.

The Deficit of Canada represented liabilities incurred by the Commission, net of deferred capital funding, that had not yet been funded through appropriations. The significant component of this amount was employee future benefits.

4. Capital assets

	December 31, 2002 Cost	December 31, 2002 Accumulated Amortization	December 31, 2002 Net Book Value	December 31, 2001 Net Book Value
	(in thousands of dollars)			
Leasehold improvements	\$ 1,172	\$ 55	\$ 1,117	\$ 19
Office furniture	758	334	424	128
Computer equipment and software	4,067	1,477	2,590	1,283
Total	<u>\$ 5,997</u>	<u>\$ 1,866</u>	<u>\$ 4,131</u>	<u>\$ 1,430</u>

5. Accounts payable and accrued liabilities

The main components of the accounts payable and accrued liabilities consist of amounts due to advertising agencies, provincial and municipal advertising partners, and salaries and benefits payable.

6. Employee future benefits

Employees of the Commission are entitled to specific benefits on or after termination or retirement, as provided for under various collective agreements or conditions of employment. Foreign employees may receive a lump sum pension entitlement on retirement.

	2002	2001
	(in thousands of dollars)	
Severance benefits	\$ 3,274	\$ 2,864
Foreign employee pension entitlements	1,132	940
	<u>\$ 4,406</u>	<u>\$ 3,804</u>

(i) Pension benefits

The Commission's contributions to the Public Service Superannuation Account during the year amounted to \$1.2 million (\$1.2 million in 2001).

The Commission's contributions to foreign employee defined contribution pension plans during the year were \$400,000 (\$400,000 in 2001).

As they are not pre-funded, no contributions were made by the Commission to foreign employee defined benefit pension plans during the year. The net expense for the Commission's foreign employee defined benefit pension plans for the year is \$200,000 (\$200,000 in 2001), and no benefits were paid by these plans during the year (nil in 2001).

(ii) Non-pension benefits

The non-pension benefits of the Commission are mainly comprised of severance benefits. The net expense for the Commission's non-pension benefit plans for the year is \$400,000 (\$300,000 in 2001), and the benefits paid by these plans during the year amounted to \$600,000 (nil in 2001).

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2002

7. Deferred capital funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations and other funds used to purchase depreciable capital assets.

Changes in the deferred funding balance are as follows:

	2002	2001
	(in thousands of dollars)	
Balance at the beginning of the year		
Parliamentary appropriations	\$ 1,430	\$ 902
Funding used in the current year for the acquisition of capital assets		
Parliamentary appropriations	2,743	1,033
Funding from related party	836	—
	3,579	1,033
Amortization		
Parliamentary appropriations	(836)	(505)
Funding from related party	(42)	—
	(878)	(505)
Balance at the end of the year		
Parliamentary appropriations	3,337	1,430
Funding from related party	794	—
	<u>\$ 4,131</u>	<u>\$ 1,430</u>

8. Parliamentary appropriations

As a result of the Commission's year end (December 31) being different than the Government's (March 31), the Commission will normally have either a Parliamentary appropriations receivable balance or a deferred Parliamentary appropriations balance at year end. The schedule below reconciles the amount of funding available to the Commission during the year with the amount actually used in operations.

	2002	2001
	(in thousands of dollars)	
Amount provided for operating and capital expenditures:		
Amounts voted in 2001-02 (2000-01)		
Main estimates	\$ 82,460	\$ 83,100
Supplementary estimates A	5,000	—
Supplementary estimates B	16,228	—
	103,688	83,100
Less: Portion recognized in calendar 2001 (2000)	(48,009)	(39,604)
	<u>55,679</u>	<u>43,496</u>
Amounts voted in 2002-03 (2001-02)		
Main estimates	83,166	82,460
Supplementary estimates A	3,097	5,000
Supplementary estimates B	—	16,228
	86,263	103,688
Less: Portion to be recognized in calendar 2003 (2002)	(37,810)	(48,774)
Parliamentary appropriations receivable (deferred) at year end	6,910	(6,905)
	<u>55,363</u>	<u>48,009</u>
	111,042	91,505
Amounts used to purchase depreciable capital assets	(2,743)	(1,033)
Parliamentary appropriations used in the year	<u>\$ 108,299</u>	<u>\$ 90,472</u>

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2002

9. Reconciliation of net results of operations to government funding basis

The Canadian Tourism Commission receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Statement of Operations and Deficit may be funded by the Government of Canada in different years. Accordingly, the Commission has different net results of operations for the year on a government-funding basis than on a Canadian generally accepted accounting principles basis. These differences are reconciled below:

	<u>2002</u>	<u>2001</u>
	(in thousands of dollars)	
Net results of operations for the year	\$ (851)	\$ (1,469)
Items not requiring (not providing) operating funds:		
Amortization of capital assets	878	505
Amortization of deferred capital funding	(878)	(505)
Services provided without charge	248	1,000
Change in employee future benefits	<u>603</u>	<u>469</u>
Net results of operations for the year on a government-funding basis	<u>\$ —</u>	<u>\$ —</u>

10. Commitments

The Commission has entered into various agreements for services and leases for office premises and equipment in Canada and abroad. The total commitments of the Commission as at December 31, 2002 are \$17.9 million (\$12.9 million in 2001).

The future minimum lease payments for office premises and equipment pursuant to these agreements are approximately as follows (in thousands of dollars):

2003	\$ 961
2004	940
2005	865
2006	797
2007	<u>833</u>
Sub-total	4,396
2008-2012	<u>3,682</u>
Total	<u>\$ 8,078</u>

11. Contingencies

In the normal course of business, various claims and lawsuits have been brought against the Commission. In the opinion of management, losses which may result from the settlement of the matters are not likely, and accordingly, no provision has been made in the accounts of the Commission. In the event management concludes that such losses were likely to be incurred and the costs were estimable, they would be charged to expenses.

NOTES TO FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2002

12. Related party transactions

The Commission is related in terms of common ownership to all Government of Canada departments, agencies and Crown Corporations and is primarily financed by the Parliament of Canada.

In the normal course of business and on normal trade terms applicable to all individuals and enterprises, the Commission incurred expenses totaling \$7.0 million (2001 - \$6.8 million) for services purchased and rental of space from other government departments and agencies, and received partnership and other contributions totaling \$1.2 million (2001 - \$200,000) for capital asset acquisitions and services rendered to other departments and agencies.

During the year, the Commission received services without charge which are recorded at their estimated fair value in the financial statements as follows:

	<u>2002</u>	<u>2001</u>
	(in thousands of dollars)	
Audit services by the Office of the Auditor General	\$ 160	\$ 260
Other services by government departments	<u>88</u>	<u>740</u>
	<u>\$ 248</u>	<u>\$ 1,000</u>

13. Financial instruments

Accounts receivable, accounts payable and accrued liabilities are incurred in the normal course of business. The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate their fair value because of their short-term maturity. There is no concentration of accounts receivable and, therefore, there is no significant credit risk.

14. Comparative figures

Some of the prior year's comparative figures have been reclassified to conform to the current year's presentation.



**Cape
Breton
Development
Corporation**



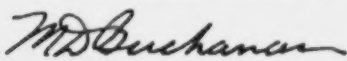
FINANCIAL REPORTING

The accompanying financial statements of the Cape Breton Development Corporation and all information in this report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are necessarily based on management's best estimates and judgement.

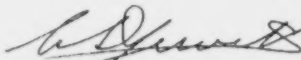
The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained in accordance with the *Financial Administration Act* and regulations as well as the *Cape Breton Development Corporation Act*, the *Cape Breton Development Corporation Divestiture Authorization and Dissolution Act* and by-laws of the Corporation. The external auditors have ready access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

These financial statements have been independently examined by the Corporation's auditor, the Auditor General of Canada, and her report is included herein.



Merrill D. Buchanan, CA
President



Chris Jewett, CMA
Senior Financial Officer

AUDIT COMMITTEE REPORT

The Audit Committee oversees the financial reporting process on behalf of the Board of Directors. In order to carry out this responsibility, the Committee, composed entirely of directors independent of management, meets at least twice a year to review the Corporation's financial statements and recommend their approval to the Board of Directors. The Audit Committee also reviews any reports prepared by the Corporation's external auditors relating to its accounting policies and procedures, as well as its internal controls. The Committee meets independently with management and auditors to review the involvement of each in the financial reporting process. These meetings are designed to facilitate any private communication with the Committee desired by each party.



YEAR ENDED MARCH 31, 2003

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Natural Resources

I have audited the balance sheet of Cape Breton Development Corporation as at March 31, 2003 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Cape Breton Development Corporation Act*, the *Cape Breton Development Corporation Divestiture Authorization and Dissolution Act* and the by-laws of the Corporation.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Halifax, Canada
May 23, 2003

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

BALANCE SHEET

AS AT MARCH 31, 2003 (in thousands of dollars)

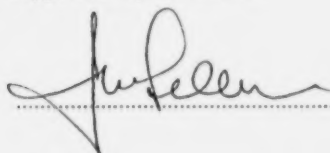
	<u>2003</u>	<u>2002</u>
Assets		
Current assets		
Cash	\$ 10,031	\$ 8,605
Accounts receivable (Note 4)	1,546	22,171
Parliamentary appropriation receivable (Note 5)	14,536	22,490
Prepaid expenses	2,770	-
Inventories		
Coal	81	108
Operating materials and supplies	<u>534</u>	<u>537</u>
	29,498	53,911
Capital assets (Note 6)	<u>828</u>	<u>827</u>
	<u>\$ 30,326</u>	<u>\$ 54,738</u>
Liabilities		
Current liabilities		
Accounts payable and accruals	\$ 5,341	\$ 5,638
Current portion of long-term accrued obligations (Notes 7, 8, 9 and 10)	<u>64,010</u>	<u>60,674</u>
	69,351	66,312
Accrued obligation for early retirement and severance benefits (Note 7)	203,413	217,592
Accrued obligation for workers' compensation (Note 8)	131,369	143,215
Accrued obligation for environmental costs (Note 9)	88,220	104,415
Accrued obligation for other employee future benefits (Note 10)	<u>7,921</u>	<u>9,157</u>
	500,274	540,691
Deficit		
Deficit of Canada	<u>(469,948)</u>	<u>(485,953)</u>
	<u>\$ 30,326</u>	<u>\$ 54,738</u>

Future of the Corporation (Note 2)

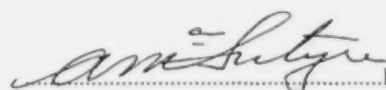
Accrued Pension Asset (Note 11)

See accompanying notes to the financial statements.

Approved by the Board



.....Director



.....Director

STATEMENT OF OPERATIONS AND DEFICIT

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
CLOSURE AND RESIDUAL ACTIVITIES		
Expenses		
Early retirement and severance benefits (Note 7)	\$ 20,496	\$ 93,452
Workers' compensation, pensions and other employee future benefits (Notes 8,10 and 11)	6,163	36,689
General and administrative	4,138	4,856
Property and site maintenance	1,961	2,433
Lease settlement	-	3,141
Amortization	27	-
	<u>32,785</u>	<u>140,571</u>
Revenue and other income		
Interest and other income	1,872	1,959
Gain from disposal of assets	416	22,517
Coal sales contract termination	-	12,461
	<u>2,288</u>	<u>36,937</u>
Net cost of closure and residual activities	<u>30,497</u>	<u>103,634</u>
COAL OPERATIONS		
Revenue	-	51,310
Expenses		
Cost of product sold	-	39,174
External freight	-	1,389
Amortization	-	3,300
	<u>-</u>	<u>43,863</u>
Profit from coal operations	<u>-</u>	<u>7,447</u>
Net results before taxes	(30,497)	(96,187)
Corporate taxes (Note 12)	<u>34</u>	<u>132</u>
Net results for the year before government funding	(30,531)	(96,319)
Government funding		
Parliamentary appropriation to fund cash requirements (Note 5)	<u>46,536</u>	<u>65,500</u>
Net results after government funding	16,005	(30,819)
Deficit, beginning of year	<u>485,953</u>	<u>455,134</u>
Deficit, end of year	<u>\$ 469,948</u>	<u>\$ 485,953</u>

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
Cash flows from:		
Operating activities:		
Cash receipts from customers	\$ 22,497	\$ 76,374
Government funding received	54,490	45,841
Cash paid to suppliers and employees	(14,945)	(58,512)
Cash paid for early retirements, severance benefits and pensions	<u>(61,004)</u>	<u>(82,266)</u>
	<u>1,038</u>	<u>(18,563)</u>
Financing activities:		
Repayment of working capital advances	-	(10,000)
Investing activities:		
Purchase of capital assets	(28)	(27)
Proceeds from sale of capital assets	<u>416</u>	<u>31,507</u>
	<u>388</u>	<u>31,480</u>
Increase in cash	1,426	2,917
Cash, beginning of year	<u>8,605</u>	<u>5,688</u>
Cash, end of year	<u><u>\$ 10,031</u></u>	<u><u>\$ 8,605</u></u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

1. AUTHORITY AND OBJECTIVES

The Corporation was established in 1967 for the purpose of reorganizing and rehabilitating the coal industry on Cape Breton Island, pursuant to the *Cape Breton Development Corporation Act*.

The Corporation, an agent of Her Majesty, is listed as a Schedule III, Part I corporation for purposes of the *Financial Administration Act*. The Corporation is carrying out restructuring activities as outlined in Corporate Plans approved by the Governor in Council. The Government of Canada is providing funding support for these activities by means of annual appropriations. The Corporation is economically dependent on the Government of Canada.

As allowed for in the *Cape Breton Development Corporation Act*, the Government of Canada can provide repayable advances for working capital purposes up to a limit of \$50,000.

The Corporation is subject to provisions of the *Income Tax Act*.

2. FUTURE OF THE CORPORATION

In 2000, the *Cape Breton Development Corporation Divestiture and Dissolution Act* was proclaimed. This Act provides for the sale of assets, winding up of the affairs of the Corporation and its eventual dissolution on a date to be fixed by the Governor in Council.

The Corporation's resources are being directed at obtaining fair value for the disposal of surplus assets and real property, as well as addressing the best methods of handling the various long-term obligations.

These financial statements reflect the impact of these activities to the extent that such decisions were made by March 31, 2003, and their impact can be reasonably determined.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies described below are appropriate under the current circumstances.

a) Management Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is possible that the amounts related to the accrued obligation for workers' compensation, the accrued pension asset, the accrued obligation for early retirement and severance benefits, and the accrued obligation for environmental costs could change materially in the near term.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

b) Parliamentary Appropriations

Parliamentary appropriations provided to fund cash requirements are recorded on the statement of operations and deficit in the year approved.

c) Fair Values

The fair values of financial instruments are determined as follows:

- Current portion of accrued obligations - using cash flows of estimated future payments without discounting.
- Accrued obligation for early retirement and severance benefits - using discounted cash flows of estimated future payments for early retirements, based on current interest rates.
- Accrued obligation for workers' compensation - using an actuarial valuation.
- Accrued obligation for environmental costs - using estimated future payments, with discounting where applicable.
- Accrued obligation for other employee future benefits - using discounted cash flows of estimated future payments, based on current interest rates.

d) Inventories

Coal is valued at the lower of full cost and estimated net realizable value.

Operating materials and supplies are valued at the lower of cost, determined on a weighted-average basis, and net realizable value.

e) Capital Assets

Capital assets are valued at the lower of cost less accumulated amortization and the estimated net realizable amount.

f) Employee Future Benefits

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, as the benefits accrue to employees. The Corporation has adopted the following policies:

- The cost of pensions is actuarially determined using the projected benefits method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees. For the purposes of calculating the expected return on plan assets, those assets are valued at fair value. The discount rate used to calculate the interest cost on the accrued benefit obligation is the long-term market rate at the measurement date.
- The cost of other employee future benefits is based on the net present value of the future payments expected to be made, using management's best estimate of inflation rates for health and related benefits,

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

usage rates and mortality rates. The portion of the liability related to a life insurance benefit to retirees over the age of 65 is actuarially determined. The cost of these other employee future benefits is included in workers' compensation, pensions and employee future benefits. Management recognizes changes in the net present value of these liabilities from the original estimate based on the results of actual experience.

g) Accrued Obligation for Early Retirement and Severance Benefits

The accrued obligation for early retirement and severance benefits represents the net present value of liabilities for early retirement incentives, severance, and education and relocation allowances related to workforce reductions when the decision has been approved by the Government of Canada and an estimate of the anticipated future costs can be reasonably determined.

Changes in the net present value of this liability from the original estimate are based on the results of actual experience and changes in management's assumptions.

h) Accrued Obligation for Workers' Compensation

The accrued obligation for workers' compensation represents the actuarially determined net present value of liabilities for benefits for work-related injuries of current and former employees when awards are approved by the Workers' Compensation Board of Nova Scotia, or legislative amendments are made and the anticipated future costs can be reasonably calculated. No amount is recognized for future administrative costs.

Changes in the net present value of this liability are based on updated actuarial estimates of future costs as a result of actual experience and changes in actuarial assumptions. Adjustments arising from actuarial gains and losses are recognized in the year in which they occur.

i) Accrued Obligation for Environmental Costs

The accrued obligation for environmental costs represents anticipated future environmental costs based on management's best estimate of the cost of complying with its interpretation of the requirements of appropriate environmental laws and regulations. These costs exclude any future salvage value that may be realized in carrying out these environmental actions. Amounts are discounted where future ongoing payments are anticipated.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net are comprised of the following:

	2003	2002
Harmonized Sales Tax refund	\$ 1,183	\$ -
Corporate taxes receivable	78	829
Emera Inc.	-	19,386
Other receivables	285	1,956
	\$ 1,546	\$ 22,171

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

5. GOVERNMENT FUNDING

During 2002/03, the Government of Canada provided the Corporation with an appropriation of \$46,536 (2002 - \$65,500) approved by the Parliament of Canada to fund cash requirements.

6. CAPITAL ASSETS

	2003			2002		
	Adjusted Cost Base	Accumulated Amortization and Write- Downs	Net Book Value	Adjusted Cost Base	Accumulated Amortization and Write- Downs	Net Book Value
Prince Colliery	\$ 16,142	\$ 16,142	\$ -	\$ 172,739	\$ 172,739	\$ -
Phalen Colliery	62,211	62,211	-	286,791	286,791	-
Donkin-Morien						
Development Project	80,679	80,679	-	80,679	80,679	-
Coal Preparation Plant	111,500	111,500	-	111,933	111,933	-
Other assets	27,094	26,266	828	55,222	54,395	827
	\$ 297,626	\$ 296,798	\$ 828	\$ 707,364	\$ 706,537	\$ 827

Changes in value reflect disposals and amortization. The net book value represents land holdings and sundry capital assets.

7. ACCRUED OBLIGATION FOR EARLY RETIREMENT AND SEVERANCE BENEFITS

This accrued obligation consists of estimates for the cost of early retirement and severance initiatives when approval of such decisions is obtained. Components included are early retirement payments, cost of expected benefits, severances and re-education allowances. Changes to these estimates based on actual experience are recognized in the statement of operations and deficit. The statement of operations and deficit includes a charge of \$20,496 (2002 - \$93,452) which primarily relates to interest charges as a result of discounting the obligation, as well as changes in actual experience and management's estimate.

Management made significant assumptions in preparing estimates of this accrued obligation, including: interest rates for discount factors and price indexation for the non-current portion of the liability; planned date of employee reductions; Canada Pension disability award rates; health and other benefit price indexation; and the number of reductions. An average interest rate assumption of 6% (2002 - 6%) is used as the discount factor for the non-current portion of early retirement payments and benefit costs. All other amounts are recorded without discounting. The estimate of liabilities, based on the above, could be significantly different if the key assumptions used by management for major determinants of the estimate vary from those planned. Management recognizes changes in this liability from the original estimate based on updated assumptions and actual experience. Management's estimate for the remaining liabilities associated with early retirement and severance benefits at March 31 is:

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

	2003	2002
Human resource strategy (1999)	\$ 128,433	\$ 133,763
Human resource strategy (1996)	53,502	59,133
Human resource strategy (2001)	42,257	45,745
Lingan Colliery closure	6,542	9,984
Other early retirement incentives	<u>9,446</u>	<u>10,255</u>
	240,180	258,880
Less: current portion	36,767	41,288
Non-current portion	\$ 203,413	\$ 217,592
Early retirement and severance expense	\$ 20,496	\$ 93,452
Early retirement and severance payments	\$ 39,196	\$ 65,166

8. ACCRUED OBLIGATION FOR WORKERS' COMPENSATION

The Corporation's accrued obligation for workers' compensation represents the unfunded liability for the costs of benefits specified and administered by the Workers' Compensation Board of Nova Scotia for work-related injuries of current and former employees. The actuarially determined liability consists of: long-term disability permanent awards in respect of approved awards and incidents incurred but not yet administered as claims; survivor benefits, comprised mainly of pension payments for past claims; and other costs consisting mainly of temporary compensation, rehabilitation and medical aid in respect of past claims. The non-current portion of these amounts are presented on a net present value basis, excluding future administration costs. The statement of operations and deficit includes a charge of \$6,561 (2002 - \$28,357) which primarily relates to interest charges on the workers' compensation obligation, as well as administration costs, changes in actuarial assumptions and the cost of workers' compensation related to accidents that occurred in the year. The accident costs during the year of nil (2002 - \$1,981) is included in the cost of product sold.

The actuary used assumptions, as agreed with management, in the calculation of the liability including: inflation rates, interest rates, mortality rates and aggregate claim projections for incidents which have occurred. The actuarial liability could be materially different if assumptions on which the valuation is based vary significantly in future years. Changes in the liability are recognized based on extrapolation of actuarial results and adjustments arising from actuarial gains and losses in the year in which they occur.

The Corporation's workers' compensation costs and obligations at March 31 consist of:

	2003	2002
Workers' compensation obligations (actuarial value)	\$ 146,619	\$ 158,215
Less: current portion	<u>15,250</u>	<u>15,000</u>
Non-current portion	\$ 131,369	\$ 143,215
Workers' compensation expense	\$ 6,561	\$ 28,357
Workers' compensation payments	\$ 20,927	\$ 17,011
Weighted Average Assumptions:		
	2003	2002
Discount rate	5.5%	5.5%
Health care and rehabilitation indexation	2.5%	3.0%

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

9. ACCRUED OBLIGATION FOR ENVIRONMENTAL COSTS

The Corporation has recorded its best estimate of anticipated future costs of environmental issues related to the decision on the future of the Corporation including: building demolition, clean-up, earthworks, water treatment and other reclamation works. This provision is based on management's best estimate of the cost of complying with its interpretation of the requirements of appropriate environmental laws and regulations.

The Corporation's estimate of this liability is a best estimate based on a range provided by consultants' reports. In 1999, these estimates varied from a low of \$72,000 to a high of \$158,000 based on various assumptions. During that year, the Corporation recorded its best estimate of the liability of \$110,000. To properly meet these obligations, the Corporation has entered into a strategic partnership arrangement with Public Works Government Services Canada (PWGSC). The arrangement allows for PWGSC to project manage the remediation activity, under spending authority controlled by the Corporation.

A multi-year Remediation Closure Plan, prepared by PWGSC and approved by the Corporation, has set priorities and guided remediation activities to date. Projects completed under this plan have reduced this liability to \$99,370.

The estimate of the liability is based on significant assumptions made by management reflecting the announced future direction of the Corporation, including: definition of appropriate legislation, regulations and industry practice; likely action required to meet the appropriate legislation, regulations and industry practice; approval and funding from the Government of Canada; the nature and extent of past and present environmental concerns; the extent of actions necessary to deal with long term management of mine water; the extent of remediation required at the Victoria Junction Coal Preparation Plant; and discount rates used. Such estimates are subject to adjustment based on changes in laws and regulations and as new information becomes available. The estimate of the liability based on the above could be significantly different if the key assumptions used by management for determination of the estimate vary from those planned.

The liability at March 31 is:

	2003	2002
Accrued obligation for environmental costs	\$ 99,370	\$ 107,915
Less: current portion	11,150	3,500
Non-current portion	\$ 88,220	\$ 104,415

10. OTHER EMPLOYEE FUTURE BENEFITS

The Corporation provides health care, life insurance and related benefits to recipients of the Corporation's Compassionate Disability Pension to age 65, a life insurance benefit to retirees over the age of 65 and a retiring allowance. The present value of these unfunded benefit plans is determined on the basis of management assumptions.

The significant management assumptions adopted in the calculation of the liability related to Compassionate Disability Pensioners include a discount rate of 6% (2002 - 6%), health and other benefit price indexation of 4.75% (2002 - 8%), and mortality rates. The significant management assumptions adopted in the calculation of

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

the liability related to the life insurance benefit include a discount rate of 6.75% (2002 - 6.75%) and mortality rates. The liability could be materially different if assumptions on which the estimate is based vary significantly in future years. The statement of operations and deficit includes a credit of \$398 (2002 - credit of \$1,031) in future employee benefit costs. Management's estimate for the liabilities associated with other employee future benefits at March 31 is:

	2003	2002
Other employee future benefits	\$ 8,764	\$ 10,043
Less: current portion	843	886
Non-current portion	\$ 7,921	\$ 9,157
Other employee future benefits credit	\$ (398)	\$ (1,031)
Other employee future benefits payments	\$ 881	\$ 771

11. PENSIONS

The Corporation maintained defined benefit pension plans on behalf of employees of the Corporation. There were two major plans, consisting of a contributory and non-contributory plan. Benefits generally are based on employees' length of service and rate of pay. The present value of pension plan benefits and current pension expense are independently determined by the Corporation's actuary based on assumptions provided by management. The determination of pension expense and the valuation of the accrued pension asset could be significantly different if the key assumptions provided by management vary from those planned.

As a result of the May 16, 2001 announcement, substantially all of the Corporation's employees were terminated by December, 2001. The Office of the Superintendent of Financial Institutions gave approval to terminate both of the Corporation's pension plans, effective December 31, 2001.

As part of the termination process, annuities have been purchased for all pension benefit recipients. Those who are not currently eligible for pension benefits have the option of receiving the commuted value of their benefits or a deferred annuity. As of March 31, 2003 the majority of commuted value transfers have been paid, with the unpaid balances making up most of the accrued liability. The financial statements reflect the curtailment of the pension plans as at December 31, 2001 and disclose settlements with pensioners and former employees to March 31, 2003. The curtailment has been accounted for by recognizing a valuation allowance against the remaining accrued pension asset at March 31, 2003. As at March 31, 2003 there have been no settlement gains or losses recognized by the Corporation.

The significant actuarial assumption adopted in measuring the Corporation's pension obligations is a discount rate of 6% (2002 - 6%). The total pension expense for the year for both plans is nil (2002 - \$13,426). The current service portion of nil (2002 - \$2,082) is included in the cost of product sold. The valuation allowance is \$43,748 (2002 - \$34,589) which represents the full value of the accrued pension asset at March 31, 2003.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

The Corporation's pension assets and obligation for the non-contributory pension plan as at March 31 consist of:

	2003	2002
Pension fund assets (fair value)	\$ 36,642	\$ 73,768
Accrued pension obligation (actuarial value)	<u>3,086</u>	<u>49,616</u>
Net pension fund assets	\$ <u>33,556</u>	\$ <u>24,152</u>
Accrued pension asset, net of valuation allowance	\$ -	\$ -
Pension contributions - employer	\$ -	\$ -
Pension expense	\$ -	\$ 9,956
Commuted value transfers and benefits paid	\$ 35,707	\$ 55,916
Annuity purchase payment	\$ 3,200	\$ 167,803

Determination of pension expense (income) for the year is calculated as:

	2003	2002
Current service cost	\$ -	\$ 533
Interest on pension obligations	-	9,154
Return on fund assets	-	(9,568)
Amortization of gains	-	(3,294)
Net increase in value of accrued pension asset	(9,404)	-
Change in valuation allowance	<u>9,404</u>	<u>13,131</u>
Pension expense	\$ -	\$ 9,956

The Corporation's pension assets and obligation for the contributory plan as at March 31 consist of:

	2003	2002
Pension fund assets (fair value)	\$ 11,349	\$ 33,656
Accrued pension obligation (actuarial value)	<u>1,157</u>	<u>23,219</u>
Net pension fund assets	\$ <u>10,192</u>	\$ <u>10,437</u>
Accrued pension asset, net of valuation allowance	\$ -	\$ -
Pension contributions - employer	\$ -	\$ -
Pension contributions - employee	\$ 89	\$ 658
Pension expense	\$ -	\$ 3,470
Commuted value transfers and benefits paid	\$ 21,475	\$ 17,081
Annuity purchase payment	\$ 1,800	\$ 27,931

Determination of pension expense for the year is calculated as:

	2003	2002
Current service cost	\$ -	\$ 1,549
Interest on pension obligations	-	2,307
Return on fund assets	-	(2,914)
Amortization of gains	-	2,127
Net decrease in value of accrued pension asset	245	-
Change in valuation allowance	<u>(245)</u>	<u>401</u>
Pension expense	\$ -	\$ 3,470

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

The dispositions of any final net pension fund assets in the pension plans will require the approval of the Office of the Superintendent of Financial Institutions. Any impact on the Corporation's financial position will be reflected when such approval is given.

In addition to the two Corporation pension plans, certain employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Corporation. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are normally expensed when paid. Contributions by the Corporation in 2003 include \$1,913 for cost of lump sum past service benefit buybacks, previously expensed. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Contributions to the Public Service Superannuation Plan consisted of:

	2003	2002
Contributions by the Corporation	\$ 2,389	\$ 446
Contributions by employees	\$ 1,107	\$ 196

12. CORPORATE TAXES

The Corporation is subject to Part I Tax on income from a business and the Large Corporations Tax. The Corporation is not subject to the Nova Scotia Tax on Large Corporations.

The corporate tax expense of \$34 (2002 - \$132) relates to Large Corporations Tax for the year 2003.

13. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. In addition to these transactions, the Government of Canada provides appropriations to the Corporation.

The Corporation has engaged Public Works Government Services Canada (PWGSC) through a partnership arrangement, for the project management of its multi-year Remediation Closure Plan and Real Property Disposal Plan. Payments made to PWGSC totalled \$5,249 in 2002/03 plus invoices payable at year-end of \$3,514. These amounts are for reimbursement of project contract payments as well as PWGSC disbursements and engineering design, and administration fees.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2003 (in thousands of dollars)

14. COMPARATIVE FIGURES

Certain of the comparative figures in these financial statements have been restated to conform with the current presentation.

General and administrative and property and site maintenance expenses of \$7,289 in 2002 have been reclassified from cost of product sold to closure and residual activities to reflect that these activities will be ongoing until the dissolution of the Corporation. Interest and other income of \$1,959 in 2002 has been reclassified from coal operations to closure and residual activities to reflect the association with government funding and recoveries of closure activities.

**Cape
Breton
Growth
Fund
Corporation**



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

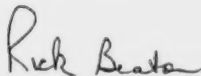
The accompanying financial statements of Cape Breton Growth Fund Corporation and all information in this annual report have been prepared by the Corporation's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate. Where there is more than one acceptable accounting alternative, management has chosen the one that is most appropriate to the circumstances of the Corporation.

Management is responsible for the integrity and objectivity of the information in the financial statements and annual report. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

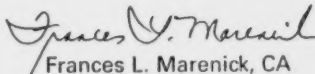
In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized and comply with relevant authorities. Management is also responsible for ensuring assets are safeguarded, proper records are maintained to produce timely, reliable financial statements and overseeing a comprehensive internal audit program. In addition, the Audit Committee of the Board of Directors oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Corporation has an Internal Audit Unit, whose functions include reviewing internal controls and their application on an ongoing basis.

The Audit Committee of the Board of Directors has periodic meetings with management, the independent auditors and the internal auditor to discuss the financial reporting process as well as accounting and reporting issues. The financial statements have been reviewed and approved by the Board of Directors upon the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in order to express her opinion thereon. The independent auditor has full and unrestricted access to the Audit Committee to discuss her audit and related findings.



Rick Beaton
Chief Executive Officer



Frances L. Marenick, CA
Treasurer

Sydney, Nova Scotia
May 16, 2003

AUDITOR'S REPORT

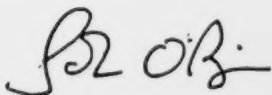
To the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act*

I have audited the balance sheet of Cape Breton Growth Fund Corporation as at March 31, 2003 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Enterprise Cape Breton Corporation Act*, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.



John O'Brien, CA
Principal
for the Auditor General of Canada

Halifax, Canada
May 16, 2003

BALANCE SHEET

As at March 31, 2003

	<u>2003</u>	<u>2002</u>
ASSETS		
Current assets:		
Cash (note 3)	\$ 58,073,663	\$ 40,731,679
Interest receivable	146,447	73,037
Accounts receivable	<u>34,169</u>	<u>14,659</u>
	58,254,279	40,819,375
Loans (note 4)	403,747	475,000
Investments, net (note 5)	1,928,000	-
Capital assets (note 6)	<u>9,819</u>	<u>29,456</u>
	<u>\$ 60,595,845</u>	<u>\$ 41,323,831</u>
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	\$ 280,444	\$ 2,798,504
SHAREHOLDER'S EQUITY		
Share capital (note 8)	1	1
Retained earnings	<u>60,315,400</u>	<u>38,525,326</u>
	<u>60,315,401</u>	<u>38,525,327</u>
	<u>\$ 60,595,845</u>	<u>\$ 41,323,831</u>

Commitments (note 9)

See accompanying notes to the financial statements.

Approved by the Board of Directors:

John Williamson
Director

Margo Buchanan
Director

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the Year Ended March 31, 2003

	<u>2003</u>	<u>2002</u>
Program expenses		
Development expenses (note 10)	\$ 4,182,112	\$ 7,642,949
Provision for impairment	<u>275,000</u>	<u>-</u>
	<u>4,457,112</u>	<u>7,642,949</u>
Program support and administrative expenses		
Salaries (note 11)	830,744	776,673
Other operating costs (note 11)	467,140	487,482
Amortization	<u>19,637</u>	<u>18,925</u>
	<u>1,317,521</u>	<u>1,283,080</u>
Total expenses	5,774,633	8,926,029
Interest income	<u>1,564,707</u>	<u>1,359,193</u>
Net cost before government funding	<u>(4,209,926)</u>	<u>(7,566,836)</u>
Government funding		
Government of Canada contribution (note 11)	23,000,000	25,030,000
Province of Nova Scotia contribution	3,000,000	3,000,000
Service provided without charge	<u>-</u>	<u>70,000</u>
	<u>26,000,000</u>	<u>28,100,000</u>
Net income after government funding	21,790,074	20,533,164
Retained earnings, beginning of year	<u>38,525,326</u>	<u>17,992,162</u>
Retained earnings, end of year	<u>\$ 60,315,400</u>	<u>\$ 38,525,326</u>

See accompanying notes to the financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2003

	<u>2003</u>	<u>2002</u>
Cash flows from (used for) operating activities		
Government of Canada contribution	\$ 23,000,000	\$ 25,045,000
Province of Nova Scotia contribution	3,000,000	3,000,000
Interest received	1,491,297	1,364,261
Payments made for program expenses	(6,603,324)	(5,183,118)
Payments made for administrative support	<u>(1,414,242)</u>	<u>(1,050,577)</u>
	<u>19,473,731</u>	<u>23,175,566</u>
Cash flows from (used for) investing activities		
Loan repayments	71,253	-
Loan disbursements	-	(475,000)
Purchase of investments	(2,203,000)	-
Purchase of capital assets	<u>-</u>	<u>(2,848)</u>
	<u>(2,131,747)</u>	<u>(477,848)</u>
Net increase in cash	17,341,984	22,697,718
Cash, beginning of year	<u>40,731,679</u>	<u>18,033,961</u>
Cash, end of year	<u>\$ 58,073,663</u>	<u>\$ 40,731,679</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003

1. AUTHORITY AND OBJECTIVES

The Cape Breton Growth Fund Corporation was incorporated on August 25, 2000 under the *Canada Business Corporations Act* as a wholly owned subsidiary of Enterprise Cape Breton Corporation. The Corporation was created to administer federal and provincial funding designed to assist in the adjustment of the local economy as a result of the Government of Canada's decision to close or privatize its coal mines in Cape Breton. The Governor in Council has directed that Part X of the *Financial Administration Act* applies to the Cape Breton Growth Fund Corporation as if it is a parent Crown corporation.

The Corporation has the same mandate as Enterprise Cape Breton Corporation (ECBC):

The objects of the Corporation are to promote and assist, either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry on Cape Breton Island to provide employment outside the coal producing industry and to broaden the base of the economy of Cape Breton Island.

The Corporation has entered into memoranda of understanding with Enterprise Cape Breton Corporation, the Province of Nova Scotia and Human Resources Development Canada (HRDC) that govern the amounts and uses of funding. The Governor in Council has directed that after the Corporation's funding is fully committed, the remaining assets and liabilities are to be transferred to Enterprise Cape Breton Corporation and the Corporation is to be dissolved.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

a) Government funding

Contributions from the Government of Canada and the Province of Nova Scotia are recorded as funding in the Statement of Operations and Retained Earnings in the year approved. Treasury Board has granted the Corporation an exemption from the Drawdown Policy for Crown Corporation Funding permitting it to retain all funds advanced.

b) Loans

Loans are recorded at the lower of cost and estimated net realizable value. Loans initially granted at a zero interest rate are recorded at the nominal amount of the loan. This reflects a zero cost of capital for these loans because they are funded by appropriations provided by the Government of Canada.

Certain loans and contributions are conditionally repayable as stipulated in the contracts. The amount of the conditional repayable loan or contribution is charged to operations when the loan is issued. If terms and conditions are not fulfilled, the conditional repayable amounts become receivable and any estimated recovery is reflected as a credit in the Statement of Operations and Retained Earnings.

Loans are written off after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is unlikely.

c) Allowance for impairment

Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of principal and where applicable, interest. A specific allowance is established to reduce the recorded value of the loan to its estimated net realizable value if there is doubt as to the timely collection on a particular loan. Impaired loans are measured according to their estimated realizable amounts by discounting expected future cash flows at the effective interest rate inherent in the loans. For loans granted with a zero interest rate, impairment is calculated based on the expected future cash flows using the zero percent rate associated with the loan. When future cash flows cannot be estimated with reasonable reliability, the estimated realizable amounts are measured at the fair value of any security underlying the loans, net of any expected costs of realization.

Initial and subsequent changes in the amount of impairment are recorded as a charge or credit to the allowance for loan impairment.

d) Investments

The Corporation has invested in preferred equity holdings and other interests. These are recorded at the lower of cost and estimated net realizable value. Estimated net realizable value is measured by discounting expected future cash flows. The discount rate is based on the Consolidated Revenue Fund lending rate to Crown corporations. Investment income is recorded on an accrual basis. The Corporation records an allowance for doubtful investments for the amount by which the value of the investment has been impaired.

e) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the lesser of the estimated useful life of the assets or the expected life of the Corporation.

f) Employee future benefits

Pursuant to the memoranda of understanding, all employees are seconded to the Cape Breton Growth Fund Corporation from other federal and provincial government organizations. The Cape Breton Growth Fund Corporation either reimburses these government organizations for the full cost of these services, including benefits, or the services are provided without charge. Consequently, there is no liability for any expected employee future benefits.

g) Interest income

Interest income is recorded on the accrual basis, and represents a return on the bank account balance.

h) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of commitments at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the estimates for loans and investments could change materially in the near term.

3. CASH

The Corporation maintains current account balances in a Canadian chartered bank at prevailing market rates.

4. LOANS

At March 31, 2003 the Corporation had one loan for \$403,747 (2002 - \$475,000) at 0% interest rate. The loan was issued in order to promote economic development to support the corporate mandate. The allowance for loan impairment is nil (2002 - nil).

The estimated fair value of the loan is \$.4 million (2002 - \$.4 million).

Repayment dates of the loan are as follows:

Date Due	2003 Carrying Value	2002 Carrying Value
2003	\$ -	\$ 71,253
2004	95,004	95,004
2005	95,004	95,004
2006	95,004	95,004
2007	95,004	95,004
2008 & beyond	<u>23,731</u>	<u>23,731</u>
	<u>\$ 403,747</u>	<u>\$ 475,000</u>

Conditional repayable contributions totaling \$11.6 million (2002 - \$7.6 million) are not included in the loan portfolio. The Statement of Operations and Retained Earnings includes a charge of \$4.0 million (2002 - \$7.6 million) to development expenses for the disbursement of conditional repayable contributions during the year.

5. INVESTMENTS

The Corporation has made investments to promote economic development in Cape Breton. The balance consists of:

	2003			2002
	Cost	Allowance	Carrying Value	Carrying Value
Shares	\$ 1,103,000	\$ -	\$ 1,103,000	\$ -
Other interest	<u>1,100,000</u>	<u>(275,000)</u>	<u>825,000</u>	<u>-</u>
	<u>\$ 2,203,000</u>	<u>\$ (275,000)</u>	<u>\$ 1,928,000</u>	<u>\$ -</u>

The shares consist of non-voting redeemable, retractable, convertible, 8% cumulative preferred shares in private sector entities. No dividends were received or declared during the year (2002 – nil). The interest consists of an investment in an entity with the intent of conversion to common shares over a five year period provided certain contractual conditions are met.

The fair values of investments, determined using discounted expected future cash flows, are in excess of the carrying value.

6. CAPITAL ASSETS

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment, furniture and leasehold	<u>\$ 57,488</u>	<u>\$ 47,669</u>	<u>\$ 9,819</u>	<u>\$ 29,456</u>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2003	2002
Due to Enterprise Cape Breton Corporation	\$ 142,998	\$ 213,167
Due to Province of Nova Scotia	56,751	81,391
Other payables	<u>80,695</u>	<u>2,503,946</u>
	<u>\$ 280,444</u>	<u>\$ 2,798,504</u>

The amounts due to Enterprise Cape Breton Corporation relate to services provided to the Cape Breton Growth Fund Corporation pursuant to the memorandum of understanding. Other payables and accrued liabilities are subject to normal commercial conditions.

8. SHARE CAPITAL

The Corporation is authorized to issue one common share without par value. This share was issued to Enterprise Cape Breton Corporation at a cost of \$1.

9. COMMITMENTS

As of March 31, 2003, the Corporation had outstanding commitments for development activities as follows:

2004	\$ 10,870,651
2005	655,613
2006	<u>63,530</u>
	<u>\$ 11,589,794</u>

10. DEVELOPMENT EXPENSES

	<u>2003</u>	<u>2002</u>
Research development and commercialization	\$ 135,754	\$ -
Access to capital	<u>4,046,358</u>	<u>7,642,949</u>
	<u>\$ 4,182,112</u>	<u>\$ 7,642,949</u>

11. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

These financial statements reflect the following transactions with ECBC pursuant to a memorandum of understanding.

- Included in program support and administrative expenses are services totaling \$943,786 (2002 – \$762,935) provided by and reimbursable to ECBC.
- Included in government funding is a \$23 million (2002 – \$25 million) contribution from ECBC.

**Defence
Construction
(1951)
Limited**



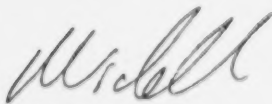
Management Responsibility Statement

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and consistently applied, after giving retroactive effect to the change in the method of accounting for employee future benefits as explained in note 3 to the financial statements. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing the report thereon.



Ross Nicholls
President and Chief Executive Officer



Angelo Ottoni
Chief Financial Officer

May 9, 2003





Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Public Works and Government Services

I have audited the balance sheet of Defence Construction (1951) Limited as at March 31, 2003 and the statements of operations, surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for employee future benefits as explained in note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

Shahid Minto, CA

Assistant Auditor General for the Auditor General of Canada

Ottawa, Canada

May 9, 2003

Balance Sheet

DEFENCE CONSTRUCTION (1951) LIMITED

as at March 31

	2003	2002 Restated (note 3)
ASSETS		
Current		
Cash	\$ 4,231,994	\$ 2,258,698
Due from related parties (note 6)	4,227,173	3,681,445
Prepays, advances and accounts receivable	342,717	226,868
	8,801,884	6,167,011
Capital assets (note 4)	889,559	1,247,054
	<u>\$ 9,691,443</u>	<u>\$ 7,414,065</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 3,104,901	\$ 1,829,368
Due to related parties (note 6)	189,283	127,716
Current portion — provision for employee future benefits (note 5)	267,267	199,000
	3,561,451	2,156,084
Provision for employee future benefits (note 5)	3,531,768	3,183,186
	<u>7,093,219</u>	<u>5,339,270</u>
CAPITAL STOCK AND SURPLUS		
Capital stock		
Authorized — 1,000 common shares of no par value		
Issued — 32 common shares	32	32
Surplus	2,598,192	2,704,763
	2,598,224	2,074,795
	<u>\$ 9,691,443</u>	<u>\$ 7,414,065</u>
Contingencies (note 9)		
(See accompanying notes)		

Approved by the Board:


Director


Director

Statement of Operations

DEFENCE CONSTRUCTION (1951) LIMITED

for the year ended March 31

	2003	2002 Restated (note 3)
Revenue		
Services (note 6)	\$ 24,422,217	\$ 20,051,955
Interest	113,334	102,184
	24,535,551	20,154,139
Expenses		
Salaries and employee benefits	19,274,616	16,641,586
Operating and administrative	3,475,692	3,004,121
Amortization of capital assets (note 4)	1,261,814	435,848
	24,012,122	20,081,555
Net Income	\$ 523,429	\$ 72,584

Statement of Surplus

for the year ended March 31

	2003	2002 Restated (note 3)
Surplus at beginning of year	\$ 2,074,763	\$ 2,589,999
Change in accounting policy (note 3)	—	(587,820)
Surplus at beginning of year, restated	2,074,763	2,002,179
Net income	523,429	72,584
Surplus at end of year	\$ 2,598,192	\$ 2,074,763

(See accompanying notes)

Statement of Cash Flows

DEFENCE CONSTRUCTION (1951) LIMITED

for the year ended March 31

	2003	2002 Restated (note 3)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net income	\$ 523,429	\$ 72,584
Items not requiring cash		
Provision for employee future benefits	556,369	504,165
Amortization	1,261,814	435,848
Loss on disposal of capital assets	—	2,109
Net increase (decrease) in non-cash working capital balances related to operations	675,524	(1,723,124)
	3,017,136	(708,418)
Employee severance and other benefits paid	(139,521)	(187,054)
	2,877,615	(895,472)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Acquisition of capital assets	(904,319)	(586,842)
Increase (decrease) in cash during the year	1,973,296	(1,482,314)
Cash at beginning of the year	2,258,698	3,741,012
Cash at end of the year	\$ 4,231,994	\$ 2,258,698

(See accompanying notes)

Notes to Financial Statements

DEFENCE CONSTRUCTION (1951) LIMITED

March 31

1. AUTHORITY AND OBJECTIVE

Defence Construction (1951) Limited was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The objective of the Corporation is principally to contract for and manage the architectural, engineering, construction and environmental services required to support the infrastructure management requirements of the Department of National Defence, pursuant to a Memorandum of Understanding with the Department.

Until 1997, the Department of National Defence provided the Corporation with funding for its net cost of operations and for the purchase of capital assets. Effective April 1, 1997, revenue is generated from fees charged for specific services provided.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

Capital assets

Capital assets are comprised of leasehold improvements, equipment and computers (which includes hardware, purchased software and implementation costs). These assets are amortized on a straight-line basis as follows:

Equipment	5 years
Computers	3 years
Leasehold improvements	Initial lease term

Employee future benefits

• Non-pension benefits

Employees are entitled to specific severance and other non-pension benefits as provided for by conditions of employment. The liability for these benefits is recorded as the benefits accrue to employees. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected salary escalation, retirement ages of employees and expected health care costs. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the average remaining service period of active employees.

• Pension benefits

Employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the Plan is currently based on a multiple of the employees' required contributions, and may change over time depending on the experience of the plan. These contributions represent the total pension obligations of the Corporation and are charged to income on a current basis. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Revenue

Revenue is recognized in the year the service is performed.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

3. CHANGE IN ACCOUNTING POLICY

On April 1, 2000, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) standard relating to accounting for employee future benefits. Application of this standard resulted in a transitional obligation of \$646,602, which, based on the Corporation's initial election to apply the standard on a prospective basis, was being amortized against income over the expected average remaining service life of the employee group covered. Effective April 1, 2002, the Corporation elected to change this policy and apply the standard on a retroactive basis. Consequently, the financial statements for the year ended March 31, 2002 have been restated as follows:

	2002 (Restated)	2002
Balance Sheet:		
Provision for employee future benefits (including current portion)	\$ 3,382,186	\$ 2,853,148
Surplus	2,074,763	2,603,801
Statement of Operations:		
Salaries and employee benefits	16,641,586	16,700,368
Net income	72,584	13,802
Statement of Surplus:		
Change in accounting policy	(587,820)	—
Statement of Cash Flows:		
Net income	72,584	13,802
Provision for employee future benefits	504,165	562,947
Notes to Financial Statements:		
Accrued severance benefits (note 5)	3,382,186	2,853,148
Current year expense (note 5)	504,165	562,947

The effect of this change on the current year's financial statements is a decrease in salaries and benefits and provision for employee future benefits of \$58,782.

4. CAPITAL ASSETS

	2003			2002
	Cost	Accumulated Amortization	Net	Net
Equipment	\$ 960,662	\$ 713,968	\$ 246,694	\$ 192,550
Computers	6,048,573	5,492,094	556,479	974,279
Leasehold Improvements	182,043	95,657	86,386	80,225
	<u>\$ 7,191,278</u>	<u>\$ 6,301,719</u>	<u>\$ 889,559</u>	<u>\$ 1,247,054</u>

Effective April 1, 2002, the Corporation changed the estimated service life of computer equipment from five to three years and the amortization period for leasehold improvements from 10 years to the initial term of the lease. This change in estimates has been applied prospectively and its impact on the fiscal year ended March 31, 2003 is an increase in amortization expense of \$665,394 and a decrease in net income of the same amount.

5. PROVISION FOR EMPLOYEE FUTURE BENEFITS

• Non-pension benefits

	2003	2002 (Restated note 3)
Accrued severance and other benefits	\$ 3,799,035	\$ 3,382,186
Less: current portion	267,267	199,000
	<u>\$ 3,351,768</u>	<u>\$ 3,183,186</u>

The Corporation provides severance and other non-pension benefits to most of its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. The projected obligation related to these benefits at March 31, 2003 is \$4,449,922 (2002 — \$3,622,789). The accrued benefit liability recognized in the balance sheet at March 31, 2003 related to these benefits is \$3,799,035 (2002 — \$3,382,186) and the current year's expense is \$556,369 (2002 — \$504,165). During the year, the Corporation paid benefits totaling \$139,521 (2002 — \$187,054).

The significant actuarial assumptions adopted in measuring the Corporation's severance and other non-pension benefits are as follows: the discount rate for projected benefits obligation is 6.50% (2002 — 6.00%); the average rate of general salary increases is 3.16% (2002 — 2.66%); the inflation rate is 2.66% (2002 — 2.16%); the average rate of extended health care cost increases is 4.66% (2002 — 4.16%); mortality rates are based on Group Annuity Mortality (GAM) for 1994 (2002 — GAM 1994); retirement age is 59 (2002 — 59).

• Pension benefits

The Public Service Superannuation Plan requires the Corporation to contribute at varying rates averaging 2.27 (2002 — 2.23) times the employees' contributions. The current year's contributions by the Corporation to the Plan were \$1,571,447 (2002 — \$1,318,402).

6. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. The Corporation's services revenue is generated from services provided to the Department of National Defence. The Department of National Defence provides office space free of charge for some employees of the Corporation. Amounts due from and to related parties at the end of the year are as follows:

	2003	2002
Due from:		
Department of National Defence	\$ 3,544,773	\$ 3,535,844
Public Works and Government Services Canada	682,400	145,601
	<u>\$ 4,227,173</u>	<u>\$ 3,681,445</u>

Due to:

Department of National Defence	\$ 77,626	\$ 62,045
Public Works and Government Services Canada	38,416	65,671
Department of Justice	73,241	—
	<u>\$ 189,283</u>	<u>\$ 127,716</u>

7. LEASE COMMITMENTS

In addition to the free office space provided by the Department of National Defence, the Corporation leases extra accommodation for its operations. The future minimum annual lease payments are as follows:

Year ending March 31:	
2004	\$ 489,783
2005	337,752
2006	101,996
2007	53,712
2008	8,952
	<u>\$ 992,195</u>

8. FINANCIAL INSTRUMENTS

Accounts receivable and accounts payable are incurred in the normal course of business and are primarily due on demand and non-interest bearing. The carrying amounts of each approximate fair value because of their short maturity. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer and, accordingly, no significant credit risk exists.

9. CONTINGENCIES

Letters of credit aggregating \$200,000 (2002 — \$200,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contracts totalling \$6,971,000 (2002 — \$6,687,000) and in respect of employment matters totalling \$75,000 (2002 — \$75,000). In the opinion of management and legal counsel, the position of the Corporation is defensible. However, the final outcome of such claims is not determinable. In accordance with the terms of an Annex to the Memorandum of Understanding between the Corporation and the Department of National Defence, the settlements resulting from the resolution of any existing and future legal claims in respect of contracts will be entirely funded by the Department, in the year of settlement. As a result of this Annex, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to potential losses on legal claims.

10. COMPARATIVE FIGURES

Certain prior year numbers have been reclassified to conform with the presentation adopted in the current year.

**Enterprise
Cape
Breton
Corporation**



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

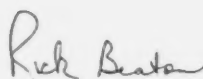
The accompanying financial statements of Enterprise Cape Breton Corporation and all information in this annual report have been prepared by the Corporation's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgements, where appropriate. Where there is more than one acceptable accounting alternative, management has chosen the one that is most appropriate to the circumstances of the Corporation.

Management is responsible for the integrity and objectivity of the information in the financial statements and annual report. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

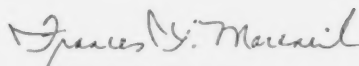
In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized and comply with relevant authorities. Management is also responsible for ensuring assets are safeguarded, proper records are maintained to produce timely, reliable financial statements and overseeing a comprehensive internal audit program. In addition, the Audit Committee of the Board of Directors oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting. The Corporation has an Internal Audit unit, whose functions include reviewing internal controls and their application on an ongoing basis.

The Audit Committee of the Board of Directors has periodic meetings with management, the independent auditors and the internal auditor to discuss the financial reporting process as well as accounting and reporting issues. The financial statements are reviewed and approved by the Board of Directors upon the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the financial statements of the Corporation in order to express her opinion thereon. The independent auditor has full and unrestricted access to the Audit Committee to discuss her audit and related findings.



Rick Beaton
Vice-President and
Chief Operating Officer



Frances L. Marenick, CA
Acting Director General, Corporate Services

Sydney, Nova Scotia
May 16, 2003

AUDITOR'S REPORT

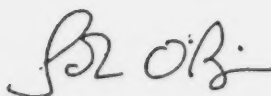
To the Minister for the purposes of the *Atlantic Canada Opportunities Agency Act*

I have audited the balance sheet of Enterprise Cape Breton Corporation as at March 31, 2003 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Enterprise Cape Breton Corporation Act* and the by-laws of the Corporation.



John O'Brien, CA
Principal
for the Auditor General of Canada

Halifax, Canada
May 16, 2003

BALANCE SHEET

as at March 31, 2003

ASSETS

	<u>2003</u>	<u>2002</u>
Current assets		
Cash	\$ 4,473,523	\$ 5,209,181
Accounts receivable, net (note 3)	8,572,135	5,672,475
Prepaid expenses	<u>59,794</u>	<u>54,257</u>
	13,105,452	10,935,913
 Loans, net (note 4)	 3,205,429	 2,465,004
Investments, net (note 5)	482,313	300,000
Investment in subsidiary (note 6)	1	1
Capital assets, net (note 7)	<u>1,305,731</u>	<u>627,647</u>
	<u>\$ 18,098,926</u>	<u>\$ 14,328,565</u>

LIABILITIES

Current liabilities		
Accounts payable and accrued liabilities (note 8)	\$ 12,178,146	\$ 9,068,953
 Accrued employee severance benefits	 <u>465,100</u>	 <u>405,261</u>
	12,643,246	9,474,214

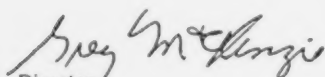
EQUITY

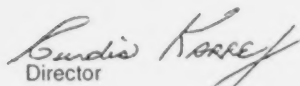
Equity of Canada	<u>5,455,680</u>	<u>4,854,351</u>
	<u>\$ 18,098,926</u>	<u>\$ 14,328,565</u>

Commitments (note 10)

See accompanying notes to the financial statements

Approved by the Board of Directors:


Director


Director

STATEMENT OF OPERATIONS AND EQUITY

for the year ended March 31, 2003

	<u>2003</u>	<u>2002</u>
Program expenses		
Development expenses (note 9)	\$ 8,655,209	\$ 10,100,929
Contribution to the Cape Breton Growth Fund Corporation (note 6)	23,000,000	25,000,000
Other program expenses (note 9)	1,482,145	1,324,850
Provision for loan impairment and investment valuation (notes 4 and 5)	<u>643,396</u>	<u>33,041</u>
	33,780,750	36,458,820
Other expenses		
Administrative expenses	1,423,351	1,267,019
Amortization	266,140	122,684
Harmonized sales tax rebate	-	(710,471)
	<u>1,689,491</u>	<u>679,232</u>
Total expenses	<u>35,470,241</u>	<u>37,138,052</u>
Revenue		
Rental facilities	110,355	64,624
Interest, investments and other	292,148	402,105
Gain on disposal of capital assets (note 4)	<u>652,067</u>	<u>-</u>
	1,054,570	466,729
Activities on behalf of the Atlantic Canada Opportunities Agency (note 11)		
Program expenses	16,034,141	15,732,920
Salaries, professional and other	<u>2,863,656</u>	<u>2,081,027</u>
	18,897,797	17,813,947
Less: Costs recovered from ACOA	<u>(18,897,797)</u>	<u>(17,813,947)</u>
Net cost of operations before parliamentary appropriation	34,415,671	36,671,323
Parliamentary appropriation	<u>35,017,000</u>	<u>37,608,000</u>
Net income	601,329	936,677
Equity, beginning of year	<u>4,854,351</u>	<u>3,917,674</u>
Equity, end of year	\$ 5,455,680	\$ 4,854,351

See accompanying notes to the financial statements

STATEMENT OF CASH FLOWS

for the year ended March 31, 2003

	<u>2003</u>	<u>2002</u>
Cash flows from (used for) operating activities		
Parliamentary appropriation received	\$ 34,308,000	\$ 35,806,000
Cash received from ACOA	16,401,359	17,018,904
Cash received from Harmonized sales tax rebate	-	710,471
Cash received from the Cape Breton Growth Fund Corporation for services performed	1,013,955	710,011
Cash received from investments and bank account	629,001	425,979
Cash received from rental activities and other parties	115,062	122,608
Payments made for program and administrative expenditures	(34,781,470)	(36,463,897)
Payments made on behalf of ACOA	(15,572,892)	(18,436,935)
Payments made on behalf of the Cape Breton Growth Fund Corporation	(935,766)	(758,097)
Payments made for severance benefits	(54,618)	(38,244)
	<u>1,122,631</u>	<u>(903,200)</u>
Cash flows from (used for) investing activities		
Loan repayments	604,373	585,064
Loan disbursements	(1,330,099)	(806,077)
Equity investment repayment	100,000	-
Purchase of equity investment	(500,000)	(200,000)
Purchase of capital assets	(849,630)	(359,982)
Proceeds on disposal of capital assets	<u>117,067</u>	<u>-</u>
	<u>(1,858,289)</u>	<u>(780,995)</u>
Net decrease in cash	(735,658)	(1,684,195)
Cash, beginning of year	<u>5,209,181</u>	<u>6,893,376</u>
Cash, end of year	\$ 4,473,523	\$ 5,209,181

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003

1. THE CORPORATION

Authority and objectives

Enterprise Cape Breton Corporation was established pursuant to the *Enterprise Cape Breton Corporation Act* (Part II of the *Government Organization Act*, Atlantic Canada, 1987) which was proclaimed on December 1, 1988. The Corporation is an agent Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. Its objects, as stated in its enabling legislation, are:

to promote and assist either alone or in conjunction with any person or the Government of Canada or of Nova Scotia or any agency of either of those governments, the financing and development of industry on the Island of Cape Breton to provide employment outside the coal producing industry and to broaden the base of the economy of the Island.

The Corporation has entered into a memorandum of understanding with the Atlantic Canada Opportunities Agency establishing the arrangements for the Corporation to deliver the Agency's programs on the Island of Cape Breton.

On August 25, 2000, the Cape Breton Growth Fund Corporation (Growth Fund) was incorporated under the *Canada Business Corporations Act* as a wholly owned subsidiary of Enterprise Cape Breton Corporation. The Growth Fund was created to administer federal and provincial funding designed to assist in the adjustment of the local economy as a result of the Government of Canada's decision to close or privatize its coal mines in Cape Breton. The Governor in Council has directed the Growth Fund to act as a parent Crown corporation for the purposes of Part X of the *Financial Administration Act*. The Growth Fund has the same mandate as the Corporation. The Governor in Council has also directed that after the Growth Fund's funding is fully committed, the remaining assets and liabilities are to be transferred to the Corporation and the Growth Fund will be dissolved.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

a) Parliamentary appropriations

Parliamentary appropriations are recorded as funding in the statement of operations and equity in the year approved. The drawdowns against these appropriations are based upon cash requirements.

b) Loans

Loans are recorded at the lower of cost and estimated net realizable value. Loans initially granted at a zero percent interest rate are recorded at the nominal amount of the loan.

Certain loans are subject to terms of forgiveness or are conditionally repayable as stipulated in the loan contract. The amount of forgiveness and all amounts conditionally repayable are charged to operations when the loan is issued. If terms and conditions are not fulfilled, the forgiveness or conditional repayable amounts are reversed and the balance becomes due and receivable by the Corporation.

Loans are written off after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is unlikely.

c) Allowance for loan impairment

Loans are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of principal and where applicable, interest. A specific allowance is established on an individual loan basis, to reduce the recorded value of the loan to its estimated net realizable value if there is doubt as to the timely collection on a particular loan. Impaired loans are measured according to their estimated realizable amounts by discounting expected future cash flows at the effective interest rate inherent in the loans. For loans granted with a zero percent interest rate, impairment is calculated based on the expected future cash flows using the zero percent rate associated with the loan. This reflects a zero cost of capital for these loans because they are funded by appropriations provided by the Government of Canada. When future cash flows cannot be estimated with reasonable reliability, the estimated realizable amounts are measured at the fair value of any security underlying the loans, net of any expected costs of realization.

Initial and subsequent changes in the amount of impairment are recorded as a charge or credit to the allowance for loan impairment.

d) Interest income

Interest income is recorded on the accrual basis. When a loan becomes impaired, interest income ceases to be recognized. Recognition of interest income recommences when the specific allowance for loan impairment is reversed.

e) Investments

The Corporation has invested in preferred equity holdings. These are recorded at the lower of cost and estimated net realizable value. Estimated net realizable value is measured by discounting expected future cash flows. The discount rate used is based on the Consolidated Revenue Fund lending rate to Crown corporations. Investment income is recorded on an accrual basis. The Corporation records an allowance for doubtful investments for the amount by which the value of the investment has been impaired and an allowance for valuation adjustment to reflect the lower of fair value or carrying value.

f) Investment in subsidiary

The Corporation accounts for its investment in the Cape Breton Growth Fund Corporation on a cost basis because the Governor in Council has instructed the Growth Fund to act as a parent Crown corporation for the purposes of Part X of the *Financial Administration Act*. Therefore, the Corporation does not control or have significant influence over the Growth Fund.

g) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the capital assets using the straight-line method at the rates indicated below:

Buildings	up to 20 years
Equipment and furniture	5 years
Computer equipment and software	2 to 3 years
Leasehold improvements	up to 20 years
Vehicles	5 years

h) Pension plan

All eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the Plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions, and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

i) Severance benefits

Upon termination of employment, employees are entitled to certain benefits provided for under their conditions of employment. The cost of these benefits is expensed in the year in which they are earned. There are no other significant post employment benefits.

The liability for severance benefits is estimated using discounted cash flows, based on current entitlements.

j) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of commitments at the date of the financial statements. Despite the use of the Corporation's best estimates, it is reasonably possible that the estimates for loans and investments could change materially in the near term.

3. ACCOUNTS RECEIVABLE

	<u>2003</u>	<u>2002</u>
Due from the Atlantic Canada Opportunities Agency (note 11)	\$ 5,702,487	\$ 3,405,784
Parliamentary appropriation	2,517,000	1,808,000
Cape Breton Growth Fund Corporation	142,998	213,167
Harmonized sales tax rebate	128,260	38,193
Other receivables	<u>81,390</u>	<u>207,331</u>
	\$ 8,572,135	\$ 5,672,475

The amount from the Atlantic Canada Opportunities Agency relates to expenditures made on behalf of the Agency pursuant to a memorandum of understanding. The amount due from the Cape Breton Growth Fund Corporation is for services performed on its behalf. Other receivables are incurred in the normal course of business with no significant concentration of debtors.

Accounts receivable are due on demand, are non-interest bearing and the carrying amounts approximate fair values because of their short term to maturity.

4. LOANS

At March 31, 2003 the Corporation had a portfolio of 41 loan accounts (2002 - 44). These loans are issued in order to promote economic development to support the corporate mandate. The total portfolio consists of:

Annual Interest Rate	2003		2002 Carrying Value
	Amount Due	Allowance	
0%	\$ 3,076,994	\$ (790,237)	\$ 2,286,757
Less than 10%	601,651	-	601,651
10% and over	315,000	-	315,000
	3,993,645	(790,237)	3,203,408
Interest receivable	2,021	-	2,021
Total loans	\$ 3,995,666	\$ (790,237)	\$ 3,205,429

The Corporation has 8 debtors (2002 - 6) representing 72% of the amount due (2002 - 72%).

Included in the loan balance is a mortgage of \$514,000 on property which the Corporation acquired and sold during the year.

The allowance for loan impairment consists of:

2003					2002
Beginning Balance	Write-offs	Conversion to Investment	Annual Provision	Ending Balance	Balance
\$ 1,316,942	\$ (252,414)	\$ (700,000)	\$ 425,709	\$ 790,237	\$ 1,316,942

The fair value of loans approximates \$2.5 million (2002 - \$2.0 million). The difference between the fair value and the carrying value results from 77% (2002 - 70%) of the loan portfolio having a zero percent interest rate.

Repayment dates of the loans are as follows:

Date Due	2003			2002
	Amount Due	Allowance	Carrying Value	Carrying Value
Past Due	\$ 255,034	\$ (146,411)	\$ 108,623	\$ 165,729
2003	-	-	-	634,677
2004	551,791	(103,069)	448,722	363,698
2005	672,356	(153,109)	519,247	353,119
2006	649,608	(95,806)	553,802	292,209
2007	544,318	(61,101)	483,217	284,814
2008 & beyond	1,320,538	(230,741)	1,089,797	370,758
	3,993,645	(790,237)	3,203,408	2,465,004
Interest receivable	2,021	-	2,021	-
	\$ 3,995,666	\$ (790,237)	\$ 3,205,429	\$ 2,465,004

Forgivable loans totalling \$178,843 (2002 – \$187,903) are not included in the loan portfolio. The statement of operations and equity includes a recovery of nil (2002 – \$374,111) for forgivable loans.

Conditional repayable contributions totalling \$17.2 million (2002 – \$15.6 million) are not included in the loan portfolio. The statement of operations and equity includes a charge of \$1.7 million (2002 – \$3.7 million) to development expenses for the disbursement of conditional repayable contributions during the year. There were no conditional repayable contributions that became due and receivable by the Corporation (2002 – nil).

In 1999, the Corporation transferred ownership of the Sydport Industrial Park to a private sector group. The original sale price for this transaction was \$3.1 million. The balance outstanding at March 31, 2003 is \$2.8 million (2002 – \$2.9 million). The intent of the agreement is that credit for the mortgage and interest will be earned by the private sector group through creation of jobs and investment in the Park. If the purchaser significantly violates the terms of the agreement, the Corporation has the right to retake possession of the property.

5. INVESTMENTS

The Corporation has made investments to promote economic development in Cape Breton. The balance consists of:

	2003			2002
	Cost	Allowances	Carrying Value	Carrying Value
Shares	\$2,100,000	\$(1,617,687)	\$ 482,313	\$ 300,000

The shares consist of non-voting, redeemable, and retractable preferred shares in private sector entities. No dividends were received or declared during the year (2002 - nil).

Management has recorded these investments net of an allowance for impairment of \$1.4 million and an allowance for valuation adjustment of \$217,687. The fair values of investments, determined using discounted expected future cash flows, approximate their recorded carrying value.

During the year, the Corporation converted a loan in the amount of \$700,000 into an equity investment and restructured an existing equity investment of \$700,000.

6. INVESTMENT IN SUBSIDIARY

A summary of the audited financial position and results for the fiscal year of operation of the Growth Fund are:

Balance Sheet	As at March 31, 2003	As at March 31, 2002
Assets	\$ 60,595,845	\$ 41,323,831
Liabilities	280,444	2,798,504
Shareholder's equity	60,315,401	38,525,327

Statement of Operations	Year ended March 31, 2003	Year ended March 31, 2002
Program expenses	\$ (4,457,112)	\$ (7,642,949)
Program support and administrative expenses	(1,317,521)	(1,283,080)
Interest income	1,564,707	1,359,193
Funding from Enterprise Cape Breton Corporation	23,000,000	25,000,000
Other government funding	3,000,000	3,100,000
Net income after government funding	\$ 21,790,074	\$ 20,533,164

The Growth Fund has issued one \$1 share. This share represents the Corporation's investment in the Growth Fund and is accounted for using the cost basis of accounting. Therefore, the results of the Growth Fund are not reflected in these financial statements.

7. CAPITAL ASSETS

	2003			2002
	Cost	Accumulated Amortization & Write Down	Net Book Value	Net Book Value
Land for development	\$ 535,088	\$ 341,596	\$ 193,492	\$ 4,209
Equipment, furniture and leasehold	2,038,332	1,578,138	460,194	446,254
Rental facilities	2,776,418	2,124,373	652,045	177,184
	\$ 5,349,838	\$ 4,044,107	\$ 1,305,731	\$ 627,647

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2003</u>	<u>2002</u>
Due to the Atlantic Canada Opportunities Agency (note 11) \$	200,891	\$ 400,626
Payable on behalf of the Atlantic Canada		
Opportunities Agency	7,675,616	4,350,711
Harmonized sales tax payable	442,405	15,645
Other payables	<u>3,859,234</u>	<u>4,301,971</u>
	\$ 12,178,146	\$ 9,068,953

The amounts due to and payable on behalf of the Atlantic Canada Opportunities Agency relate to activities on behalf of the Agency pursuant to the memorandum of understanding. Other payables are subject to normal commercial conditions and relate to development and administrative expenses.

9. PROGRAM EXPENSES

Development and other program expenses consist of:

	<u>2003</u>	<u>2002</u>
Development expenses		
Support to business	\$ 2,936,629	\$ 2,123,766
Support to communities	5,081,159	6,925,558
Trade and investment	264,238	200,588
Policy and advocacy	344,473	159,569
Image	28,710	157,755
Strategic initiatives	-	27,565
Tourism marketing	<u>-</u>	<u>506,128</u>
	\$ 8,655,209	\$ 10,100,929
Other program expenses		
Program support	\$ 1,287,723	\$ 1,183,232
Rental and development facilities	<u>194,422</u>	<u>141,618</u>
	\$ 1,482,145	\$ 1,324,850

10. COMMITMENTS

(a) As at March 31, 2003, the Corporation had outstanding commitments for development programs totalling \$10,907,182 (2002 - \$4,028,940).

(b) Future minimum payments by fiscal year on operating leases in excess of one year are as follows:

2004	\$ 507,055
2005	507,055
2006	<u>42,255</u>
	\$1,056,365

11. RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed elsewhere in these financial statements, the cost of services provided by other federal government departments, agencies, and Crown corporations are reflected in the statement of operations and equity and totalled \$154,398 (2002 - \$97,949). These transactions are in the normal course of operations and are recorded at the exchange amount.

The Corporation has entered into a memorandum of understanding with the Cape Breton Growth Fund Corporation that governs the amount of the contribution to the Growth Fund and the provision of administrative and program support services. In addition, the Corporation provided and recovered program and administrative support of \$943,786 (2002 - \$762,935).

12. PENSION PLAN

During the year the Public Service Superannuation Plan (PSSA) required the Corporation to contribute to the PSSA. Contributions to the PSSA during the year were as follows:

	<u>2003</u>	<u>2002</u>
Corporation	\$ 433,094	\$ 392,028
Employees	<u>196,897</u>	<u>178,800</u>
	\$ 629,991	\$ 570,828

13. SEVERANCE BENEFITS

The expense for the Corporation's severance benefits for the year ended March 31, 2003 is \$127,473 (2002 - \$78,376).

14. COMPARATIVE FIGURES

Certain of the 2002 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2003.



**Export
Development
Canada**



Financial Reporting Responsibility



Peter Allen
*Senior Vice-President
and Chief Financial Officer*

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances and consistently applied. The integrity and objectivity of the data in these consolidated financial statements are management's responsibility. The consolidated financial statements include some amounts, such as the allowances for losses on loans, the allowance for loan commitments and guarantees and the allowance for claims on insurance, that are necessarily based on management's best estimates and judgment. Management is also responsible for all other information in the

Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the consolidated financial statements.

In support of its responsibility, management maintains financial, management control and information systems and management practices to provide reasonable assurance that the financial information is reliable, that the assets are safeguarded and that the operations are carried out effectively. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors of EDC is responsible for the management of the business and activities of the Corporation. In particular, it is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis.

Contracts which, in the opinion of EDC, involve risks in excess of that which the Corporation would normally undertake, may be entered into under the authority of the Minister for International Trade and the Minister of Finance where the Minister for International Trade considers them to be in the national interest. Funds required for such contracts are paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund, and funds recovered are remitted to the Consolidated Revenue Fund, net of amounts withheld to cover related administrative expenses. These transactions, which are known as Canada Account transactions, are shown in note 21 to the Corporation's consolidated financial statements, and the responsibility of the Board of Directors for these transactions is limited to the management of the administration thereof by EDC.

The Auditor General of Canada conducts an independent audit, in accordance with generally accepted auditing standards, and expresses her opinion on the consolidated financial statements. Her report is presented on the following page.

A handwritten signature in dark ink, appearing to read 'A. Ian Gillespie'.

A. Ian Gillespie
*President and
Chief Executive Officer*

A handwritten signature in dark ink, appearing to read 'Peter Allen'.

Peter Allen
*Senior Vice-President and
Chief Financial Officer*



Auditor's Report



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Minister for International Trade

I have audited the consolidated balance sheet of Export Development Canada as at December 31, 2002 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Export Development Act* and regulations and the by-laws of the Corporation and its wholly-owned subsidiary.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
February 12, 2003

Consolidated Financial Statements

Consolidated Balance Sheet

as at December 31

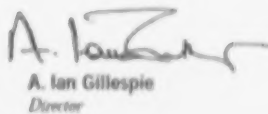
(\$ in millions)

	2002	2001
Assets		
Cash and Investments		
Cash and cash equivalents	271	612
Marketable securities (note 3)	2,553	1,562
Investments (note 4)	75	172
Accrued interest	9	9
	2,908	2,355
Loans Receivable		
Net loans receivable (notes 5, 6 and 7)	21,010	20,826
Accrued interest and fees	295	269
	21,305	21,095
Other		
Recoverable insurance claims (note 10)	90	96
Derivative related amounts (note 17)	171	167
Other assets	80	80
	341	343
Total Assets	\$24,554	\$23,793
Liabilities and Shareholder's Equity		
Loans Payable (notes 13 and 14)		
Loans payable	20,820	19,609
Accrued interest	254	415
	21,082	20,024
Other Liabilities and Deferred Revenue		
Accounts payable and other credits	155	131
Deferred insurance premiums	19	20
Derivative related amounts (note 17)	384	516
Allowance for loan commitments and guarantees (note 7)	377	588
Allowance for claims on insurance (note 11)	460	464
	1,395	1,719
Loan Commitments and Contingent Liabilities (notes 8 and 9)		
Shareholder's Equity (note 15)		
Share capital	983	983
Retained earnings	1,094	1,067
	2,077	2,050
Total Liabilities and Shareholder's Equity	\$24,554	\$23,793

See accompanying notes.

Approved by the Board of Directors


R. Fung
Director


A. Ian Gillespie
Director

Consolidated Statement of Income and Retained Earnings

for the year ended December 31

(\$ in millions)

	2002	2001
Interest income:		
Loans	1,404	1,620
Debt relief (note 19)	96	1
Investment portfolio	69	127
	1,569	1,748
Interest expense	580	934
Net Interest Income	989	814
Insurance Premiums and Guarantee Fees	147	134
Provision for Credit Losses (note 12)	840	741
Income after provision for credit losses	296	207
Administrative Expenses	174	149
Net Income	122	58
Retained Earnings		
Beginning of year	1,067	1,009
Dividend paid (note 19)	95	-
End of year	\$1,094	\$1,067

See accompanying notes.

Consolidated Statement of Cash Flows

for the year ended December 31

(\$ in millions)

	2002	2001
Operating Activities		
Net income	122	58
Items not affecting cash and cash equivalents		
Provision for credit losses	840	741
Net increase in accrued interest and fees receivable	(272)	(149)
Net decrease in accrued interest and fees payable	(163)	(50)
Net (increase)/decrease in derivative related amounts receivable	(13)	110
Net increase/(decrease) in derivative related amounts payable	28	(358)
Other changes	(63)	(90)
Cash flows from operating activities	479	262
Investing Activities		
Loan disbursements	(6,028)	(8,085)
Loan repayments	5,157	6,243
(Increase)/decrease in marketable securities	(980)	548
Increase/(decrease) in investments	97	(2)
Cash flows used in investing activities	(1,754)	(1,296)
Financing Activities		
Issue of long-term loans payable	6,134	5,398
Repayment of long-term loans payable	(5,277)	(4,203)
Increase in short-term loans payable	177	329
Dividend paid	(95)	-
Cash flows from financing activities	939	1,524
Effect of exchange rate changes on cash and cash equivalents	(5)	18
Net (decrease)/increase in cash and cash equivalents	(341)	508
Cash and Cash Equivalents		
Beginning of year	612	104
End of year	\$271	\$612
Represented by		
Cash	24	81
Treasury bills	237	531
	\$271	\$612
Supplemental Information		
Cash paid for interest	\$616	\$1,034

See accompanying notes.

Notes to the Consolidated Financial Statements

1. Corporate Mandate and Activities

Export Development Canada (the "Corporation" or "EDC"), which prior to December 21, 2001 was named Export Development Corporation, was established on October 1, 1963 by the *Export Development Act* (the "Act"), a statute of the Parliament of Canada that was last amended effective December 21, 2001. The Act provides that the Corporation was established for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities. The Corporation is accountable for its affairs to Parliament through the Minister for International Trade.

EDC incorporated Exinvest Inc. as a wholly-owned subsidiary (the "Subsidiary") under the *Canada Business Corporations Act* in 1995. The activities of the Subsidiary have been consolidated with those of the Corporation.

The earnings of the Corporation and its Subsidiary are not subject to the requirements of the *Income Tax Act*.

The Corporation is subject to a limit imposed by the Act on its contingent liability programs. The Act specifies that the limit applies to the principal amount owing under all outstanding arrangements which have the effect of providing, to any person, any insurance, reinsurance, indemnity or guarantee. This limit shall at no time exceed the greater of an amount equal to 10 times the authorized capital of the Corporation and \$17.5 billion, which amount may be varied in an appropriation Act. During 2002, the amount of \$17.5 billion was increased to \$20.0 billion by an appropriation Act (Bill C-21). As at December 31, 2002, the amount of these contingent liabilities is \$15.3 billion (2001 - \$14.5 billion restated - see note 9).

EDC is for all purposes an agent of Her Majesty in right of Canada. As a result, all obligations under debt instruments issued by the Corporation are obligations of Canada. The Act allows the Corporation to borrow and have outstanding borrowings up to a maximum of 15 times the aggregate of its (a) current paid-in capital and (b) the retained earnings of the Corporation determined in accordance with the previous year's audited financial statements. The maximum applicable to December 31, 2002 is \$30.8 billion (2001 - \$29.9 billion), against which borrowings amounted to \$20.8 billion (2001 - \$19.6 billion).

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents represent short-term highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents on EDC's balance sheet comprise cash and treasury bills. Cash flows arising from transactions in a foreign currency are translated at the yearly average exchange rate. As well, investing or financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows and disclosed elsewhere in the financial statements.

Marketable Securities and Investments

Securities and investments that are being held to maturity are carried at cost. Gains and losses on these securities and investments are recognized in income only when they are realized and the asset is removed from the balance sheet. In the case of a significant and other than temporary loss in the value of a security or investment carried at cost, the security or investment would be written down in value at the time of impairment. Temporary investments are carried at market value. The gains and losses arising from securities carried at market value are included in investment portfolio income.

Net Loans Receivable

Net loans receivable are stated net of non-accrued capitalized interest, deferred loan revenue, and the allowance for losses on loans. Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired, but not recognized for financial statement purposes. Rescheduled loans are considered performing unless they meet the criteria of impaired loans.

Loan interest is recorded on an accrual basis until such time as management determines that a loan should be classified as impaired. Loans are classified as impaired when circumstances indicate that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected on a timely basis in accordance with the terms of the loan agreement. Commercial loans are made impaired when there are payment overdues of 90 days or more, or if the counterparty is in bankruptcy protection. Amounts received for impaired loans are credited to the book value of the loans. No portion of cash received on a loan subsequent to its classification as impaired is recorded as interest income until such time as any specific allowance has been reversed, and it is determined that the loan principal is fully collectible in accordance with the contractual terms of the loan. An impaired loan is restored to a performing basis after a pattern of regular payments has been established, normally three years. When the Corporation restores the impaired loan to an accrual basis, previously non-accrued capitalized interest is recognized over the remaining term of the loan.

Deferred Revenue

Deferred loan revenue, comprised of exposure fees and administration fees, is recognized as interest income and amortized as a yield increment over the term of the related loan. Guarantee fee revenue is recognized as income together with insurance premium revenue and is amortized over the term of the related guarantee.

Measurement Uncertainty

To prepare the Corporation's financial statements in accordance with Canadian generally accepted accounting principles, it is necessary for management to make assumptions and estimates based on information available as at the date of the financial statements. The most material of these estimates are the allowance for losses on loans, loan commitments and guarantees (note 7) and the allowance for claims on insurance (note 11). Management determines the allowances using various assumptions, based on its assessment of the impact of recent events and changes in economic conditions and trends. These estimates are reviewed periodically during the course of the year as required and in detail as at the date of the financial statements. Actual losses on loans and liabilities for contingencies incurred may vary significantly from management's estimates. The uncertainty in the estimation process arises, in part, from the use of historical data to identify and quantify credit deterioration. While historical data may be the most reliable basis available to calculate these amounts, economic events may occur in the near term that render previous assumptions invalid and cause a material change to management's estimates.

The general allowance for losses on loans, loan commitments and guarantees is estimated using historical loan default and recovery rates. For specifically identified impaired loans, recoverable amounts are calculated using the best estimates of the timing and amount of future cash flows for each borrower.

The allowance for claims on insurance is calculated by discounting estimated future net claims less future net premiums, based on assumptions consistent with the Corporation's past experience. Additional amounts are provided for possible adverse deviation from best estimate assumptions. While these amounts vary with the degree of uncertainty inherent in each program and with the homogeneity of policies (size and term) within each portfolio, the valuation process conforms to the recommendations of the Canadian Institute of Actuaries.

Allowance for Losses on Loans, Loan Commitments and Guarantees

The allowance for losses on loans, loan commitments and guarantees is based on a review of all loans, loan guarantees and commitments to commercial and sovereign borrowers and represents management's best estimate of probable credit losses. The allowance includes both general and specific allowances.

General allowances are comprised of the **base allowance** calculated based on counterparty credit ratings, **market overlays**, and a **counterparty concentration allowance**. General allowances are calculated based on probable credit losses for performing loans, loan guarantees, and loan commitments (including letters of offer). Amounts for loan commitments are factored to provide for the estimated usage rate of the commitment.

For the **base allowance**, EDC classifies its performing loans, loan guarantees and commitments into seven categories. The first six categories represent groups of performing loans that share the same credit rating. The Corporation categorizes its performing commercial and sovereign loans using a rating system of 6 credit grades (AA grade to C grade), then establishes an appropriate general allowance based on expected credit losses for each performing risk category. The seventh category represents loan assets that have been designated as watchlist items, which require a higher degree of monitoring and loan allowance. These seven categories, as well as the counterparty ratings, are consistent with the categorization and ratings used by EDC's credit risk management policies. These categories are further segregated between commercial and sovereign exposures, OECD and emerging market countries, and secured and unsecured exposures. Loss rates are determined for each category based on estimates of default rates and loss severity. Default rates are based on the average of Moody's and Standard and Poor's default tables. Loss severity is determined based on EDC's historical loan loss rates. These rates are then applied to the segregated categories to form the general allowance.

In addition, **market overlays** are provided for those countries and industries which are currently experiencing downward trends. These overlays are needed because of the time delay that exists between market events and announcement of credit rating changes.

EDC has significant single name counterparty concentrations. A **counterparty concentration allowance** is established for counterparties whose exposure is deemed by management to represent an increased amount of risk. At December 31, 2002, this level was assessed at 10% of shareholder's equity.

Specific allowances are established on an individual loan basis to recognize credit losses. When a loan is considered impaired, the carrying value of the loan is reduced to its estimated realizable value using appropriate market values. When market values are not available, the estimated realizable value is determined by discounting expected cash flows at rates inherent in the loan. The amount of initial impairment and any subsequent changes due to the re-evaluation of estimated future cash flows are recorded through the provision for credit losses as an adjustment to the specific allowance for impaired loans.

The general allowances for performing loans and specific allowances for impaired loans are shown as a reduction in gross loans receivable in note 5 to arrive at net loans receivable which is an asset on the balance sheet. General allowances for loan guarantees and loan commitments are shown as a liability on the balance sheet.

Recoverable Insurance Claims

Recoverable insurance claim payments are recorded at estimated recoverable values. Subsequent net gains or losses on recovery are credited or charged to the allowance for claims on insurance when recoverable values are re-estimated.

Allowance for Claims on Insurance

The allowance for claims on insurance is based on an actuarial review of net loss experience and potential net losses and represents management's best estimate of the net present value of the liability under existing policies. The related provision is recorded through the provision for credit losses.

Insurance Premiums

For short-term insurance policies, premiums are taken into income at the commencement of coverage. Premiums on other export insurance policies are taken into income using methods that generally reflect the exposures over the terms of the policies and are amortized over the life of the policies on a straight line basis. Reinsurance premiums and recoveries on losses incurred are recorded as reductions of the respective income and balance sheet accounts. Unearned premiums on insurance transferred to reinsurers and estimates of amounts recoverable from reinsurers on unpaid claims are deducted from deferred premiums and recoverable claims respectively.

Derivative Financial Instruments

The Corporation uses a variety of derivative financial instruments ("derivatives") to manage market risk, which includes foreign exchange fluctuations and changes in interest rates. These derivatives are only contracted with creditworthy counterparties. The counterparty must have a minimum credit rating of A3 where EDC has a collateral agreement with the counterparty. In transactions where EDC does not have a collateral agreement with the counterparty, the counterparty must have a minimum credit rating of A2 for transactions of less than three years, and a minimum credit rating of Aa3 for transactions greater than three years.

Derivatives are recognized on the balance sheet upon issuance, and removed from the balance sheet when they expire or are terminated. Both on initial recognition and subsequently, each derivative is recognized as either an asset or a liability on the balance sheet at its accrual basis value. The derivative is an asset when the accrual basis value indicates that the counterparty owes EDC. The derivative is a liability when the accrual basis value indicates that EDC owes the counterparty. Assets are disclosed on the balance sheet as a separate component of other assets, while liabilities are disclosed on the balance sheet as a separate component of other liabilities and deferred revenue. Premiums paid or discounts received on these instruments are deferred and amortized over the life of the contract. Net receipts or payments are recognized in income on an accrual basis in the same period and the same financial statement category to which the contract is related. Where the interest payment amount is known in advance, as is the case with fixed and floating rate payments, the accrual allocates the income (or expense) over the period to payment. Where the interest payment amount is not known in advance, an appropriate interest accrual is determined by reference to market prices. Changes in the accrual basis values of derivatives are reported in the statement of cash flows as operating activities.

Translation of Foreign Currency

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income and expenses are translated at monthly average exchange rates in effect during the year. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are included with interest expense.

Interest Expense

Interest expense includes expenses of commercial paper, bonds, derivative financial instruments, the amortization of debt discount and issue expenses, and foreign exchange gains and losses. Gains or losses incurred when the Corporation repurchases its bonds, and unwinds any swaps related to those bonds, are either taken into income at the time of the transaction, or deferred and amortized over the life of a replacement debt issue, should one be issued.

Employee Benefits

The Corporation maintains a defined benefit pension plan to provide retirement benefits to its employees. Pension costs are actuarially determined using the projected benefit method pro rated on service and management's best estimate assumptions. The latest valuation was completed by an independent actuary as at December 31, 2002. The discount rate used to determine the accrued benefit obligation was based on market rates for long-term high-quality bonds. Pension fund assets are valued at fair value for the purpose of calculating the expected return on plan assets.

The net pension plan expense consists of the actuarially determined pension benefits for the current year's service, imputed interest on projected pension obligations net of interest earned on plan assets and the amortization of actuarial gains or losses and other items over the average remaining service period of active employees expected to receive benefits under the plan. Actuarial gains or losses are amortized only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the greater of the accrued benefit obligation and the fair value of plan assets.

The cumulative difference between the pension expense and funding contributions is included in accounts payable and other credits.

The Corporation also provides other non-pension post-retirement benefits for employees including a retiring allowance plan and life insurance and health and dental care benefits. The cost of these benefits is accrued for as earned by the employees and is actuarially determined in a manner consistent with the method used for the pension benefits.

Adoption in fiscal 2000 of the CICA's new standard for recording employee future benefits resulted in a transitional obligation with respect to the non-pension post-retirement benefit plans. The transitional obligations with respect to the retiring allowance plan and the other post-retirement benefit plans are being amortized into income over 14 and 20 years respectively.

3. Marketable Securities

The Corporation maintains liquidity sufficient to meet general operating requirements, to maintain stability in the short-term borrowing program and to provide flexibility in achieving corporate objectives. In order to meet these varied needs, marketable securities are held in either the investment portfolio or the temporary investment portfolio. Investment portfolio securities are held for liquidity as well as for the longer term. Temporary investments will either mature or be sold within a year. Credit exposure related to securities held in the investment portfolio and the temporary investment portfolio is represented by their carrying value.

(\$ in millions)		2002	2001
Issued or guaranteed by:	Portfolio		Total
	Investments	Temporary Investments	
Canadian government*	397	—	397
Corporate	407	72	479
Financial institutions	1,196	314	1,510
Other sovereign	167	—	167
Total Marketable Securities	\$2,167	\$386	\$2,553
			\$1,562

* Canadian government includes federal, provincial, and municipal governments and Crown corporations.

The table below shows yields on EDC's marketable securities and how derivative financial instruments have been used to manage interest rate and foreign currency exposures of the Corporation's investment portfolio.

(\$ in millions)				2002	2001
	Remaining Term to Maturity				
	Under 1 Year	1 to 3 Years	Over 3 Years	Total	Total
Investment portfolio					
Fixed rate securities	135	62	353	550	423
Swap contracts	(95)	(26)	(33)	(154)	(193)
Subtotal	40	36	320	396	230
Yield to maturity %	5.24	5.03	5.00	5.00	4.82
Floating rate securities	1,417	184	16	1,617	618
Swap contracts	100	25	30	155	199
Subtotal	1,517	209	46	1,772	817
Yield to reset %	1.72	2.10	1.77	1.81	2.24
Total investment portfolio	1,557	245	366	2,168	1,047
Temporary investments					
Floating rate securities	386	-	-	386	521
Spot yield %				2.86	2.13
Value at purchase				384	519
Total portfolio	1,943	245	366	2,554	1,568
Derivative related amounts	(5)	1	3	(1)	(6)
Total Marketable Securities	\$1,938	\$246	\$369	\$2,553	\$1,562

Credit exposure for swap contracts is a fraction of the notional amount of the instruments shown above, and is represented by the replacement cost of those contracts. Credit exposure for swap contracts held in the investment portfolio is included as part of note 17.

4. Investments

Investments comprise \$33 million (2001 - \$127 million) of restricted cash and securities held by EDC's subsidiary Exinvest Inc. and notes issued by Vancouver Port Authority (formerly Vancouver Port Corporation) and the Royal Canadian Mint, totaling \$42 million (2001 - \$45 million). EDC intends to hold these notes to maturity. The Royal Canadian Mint is a Crown corporation and is related to EDC as a result of common ownership. The investment with the Royal Canadian Mint was transacted at fair value, made on the same terms as those with third parties with similar credit risk, and is recorded at cost.

(\$ in millions)				2002	2001
	Remaining Term to Maturity				
	Under 1 Year	1 to 3 Years	Over 3 Years	Total	Total
Fixed rate investments	4	9	42	55	45
Floating rate investments	3	-	17	20	127
Total Investments	\$7	\$9	\$59	\$75	\$172
Yield % *	6.26	6.36	4.86	4.97	6.32

* Refers to yield to maturity for fixed rate investments, and yield to reset for floating rate investments.

5. Net Loans Receivable

The following table shows the contractual maturity and related contractual effective yields for gross loans receivable. The yields are computed on a weighted average basis by amount and term. Floating rate yields are expressed as spreads over base rates which consist mainly of LIBOR for U.S. dollars and Prime for Canadian dollars.

(\$ in millions)		2002					2001				
	Fixed \$	Yield to Maturity %	Floating \$	Spread %	Total \$	Fixed \$	Yield to Maturity %	Floating \$	Spread %	Total \$	
Performing:											
Overdue	93	7.67	8	2.64	101	39	9.44	126	.43	165	
2002	—	—	—	—	—	1,092	7.80	2,801	1.46	3,893	
2003	947	7.55	2,716	2.05	3,663	946	7.44	1,624	1.95	2,570	
2004	917	7.65	1,994	2.00	2,911	864	7.66	1,547	2.09	2,411	
2005	866	7.53	1,417	2.14	2,283	803	7.55	1,374	1.95	2,177	
2006	807	7.43	1,154	1.64	1,961	725	7.47	1,090	1.54	1,815	
2007	882	7.52	836	1.49	1,718	774	7.62	687	1.52	1,461	
2008-2012	4,220	7.20	2,414	1.38	6,634	3,559	7.30	1,941	1.54	5,500	
2013 and beyond	3,850	7.11	961	1.42	4,811	3,193	7.38	391	1.37	3,584	
Performing gross loans receivable	12,582	7.18	11,500	1.74	24,082	11,995	7.42	11,581	1.69	23,576	
Impaired (note 6)	201	5.34	2,058	1.71	2,259	234		1,416		1,650	
Gross loans receivable	\$12,783		\$13,558		\$26,341	\$12,229		\$12,997		\$25,226	
Less: Non-accrued capitalized interest on Impaired loans (note 6)					1,001					742	
Performing loans*					425					499	
Loans receivable					24,915					23,985	
Less: Allowance for losses on loans (note 7)					3,613					2,892	
Deferred loan revenue					292					267	
Net Loans Receivable					\$21,010					\$20,826	

* Represents the unamortized balance that accrued while the loan was impaired.

At December 31, 2002, the floating rate performing gross loans receivable are yielding 3.76% (2001 – 4.63%) with an average term to reset of 103 days (2001 – 107 days).

The breakdown of the Corporation's performing gross loans receivable between sovereign and commercial is as follows:

(\$ in millions)		2002					2001				
	Fixed \$	Yield to Maturity %	Floating \$	Spread %	Total \$	Fixed \$	Yield to Maturity %	Floating \$	Spread %	Total \$	
Sovereign	3,046	8.37	2,473	1.11	5,519	3,241	8.31	2,989	1.23	6,230	
Commercial	9,536	6.89	9,027	1.93	18,563	8,754	7.09	8,592	1.85	17,346	
Total Performing Gross Loans Receivable	\$12,582	7.18	\$11,500	1.74	\$24,082	\$11,995	7.42	\$11,581	1.69	\$23,576	

The Corporation has significant geographic concentrations in certain countries as outlined below.

(\$ in millions)		2002		2001	
Country	Performing Gross Loans Receivable	%	Country	Performing Gross Loans Receivable	%
United States	11,689	49	United States	10,169	43
Canada	2,088	9	Canada	2,201	9
Mexico	1,426	6	Mexico	1,322	6
United Kingdom	987	4	China	1,090	5
China	973	4	Peru	932	4
Other	6,919	28	Other	7,862	33
Total	\$24,082	100	Total	\$23,576	100

In addition, the Corporation has single counterparty gross loans receivables totaling \$4,610 million (2001 – \$3,386 million) with five airlines, \$1,258 million (2001 – \$1,293 million) with a ground transportation entity and \$1,779 million (2001 – \$1,206 million) with an automotive entity. All of these counterparties are located in the United States.

Non-accrued capitalized interest represents contractual interest capitalized according to rescheduling agreements with sovereign borrowers during which time the loans are classified as impaired.

The following reflects the movement of non-accrued capitalized interest during the year:

(\$ in millions)	2002	2001
Balance at beginning of year	1,241	1,165
Capitalized interest	343	92
Amortization	(76)	(83)
Debt relief	(81)	(1)
Foreign exchange translation	(1)	68
Balance at end of year	\$1,426	\$1,241

6. Impaired Loans Receivable

The Corporation has \$2,259 million (2001 – \$1,650 million) of impaired gross loans receivable, of which \$1,421 million (2001 – \$1,320 million) is sovereign and \$838 million (2001 – \$330 million) is commercial. The following table shows the amount of gross loans receivable, net of non-accrued capitalized interest and the specific allowance, which represents net impaired loans receivable.

(\$ in millions)	2002	2001
Gross impaired loans receivable		
Sovereign	1,421	1,320
Commercial	838	330
	2,259	1,650
Less: Non-accrued capitalized interest	1,001	742
Specific allowance (note 7)	582	370
Net Impaired Loans Receivable	\$676	\$538

The following reflects the movement in impaired gross loans receivable during the year:

(\$ in millions)	2002	2001
Balance at beginning of year	1,650	1,323
Loans classified as impaired	840	482
Loans reinstated to performing	–	(44)
Loans written off	(194)	(191)
Capitalized interest	343	94
Principal repayments	(109)	(15)
Receipts from the Government of Canada for sovereign debt relief	(311)	(13)
Receivable from the Government of Canada for sovereign debt relief	–	(81)
Foreign exchange translation	40	95
Balance at end of year	\$2,259	\$1,650

Impaired loans to five commercial borrowers in the United States totaling \$82 million, one commercial loan in Germany for \$41 million, one commercial loan in Brazil for \$39 million and sovereign loans in Yugoslavia totaling \$32 million were written off against the allowance for loan losses. These loans were written off after all collection methods had been exhausted and no further prospect of recovery was likely. Included in the write-offs of \$194 million are loans totaling \$128 million which were made impaired in 2002. For the five years ending December 31, 2002, cumulative loan write-offs totaled \$490 million, of which 79% occurred in the past two years.

During 2002, payments of principal and interest from borrowers for impaired loans were \$109 million (2001 – \$34 million). These amounts were applied to the book value of the impaired loans and did not affect interest income.

7. Allowance for Losses on Loans, Loan Commitments and Guarantees

The composition of the allowance for losses on loans, loan commitments and guarantees is as follows:

(\$ in millions)	2002	2001
General allowance		
Base Allowance		
Investment grade exposure	125	104
Non-investment grade exposure	1,895	1,819
Total base allowance	2,020	1,923
Counterparty Concentration		
Investment grade exposure	64	60
Non-investment grade exposure	497	466
Total counterparty concentration	561	526
Allowance Overlays		
Country		
United States	138	130
Venezuela	57	12
Brazil	37	41
Indonesia	20	28
Turkey	10	19
Argentina	7	19
Other	21	44
Total country overlay	290	293
Industry		
Aerospace	382	267
Telecom	110	87
Power	45	-
Other	-	14
Total industry overlay	537	368
Total general allowance	3,408	3,110
Specific allowance for impaired loans	582	370
Allowance for Losses on Loans, Loan Commitments and Guarantees	\$3,990	\$3,480

The classification of the allowance for losses on loans, loan commitments and guarantees is as follows:

(\$ in millions)	2002	2001
Allowance for losses on loans	3,613	2,892
Allowance for loan commitments	284	521
Allowance for loan guarantees	93	67
Total	\$3,990	\$3,480

The allowance for losses on loans is shown as a reduction of gross loans receivable in note 5 to arrive at net loans receivable which is an asset on the balance sheet. The allowance for loan commitments and guarantees is reported as a liability in the financial statements.

During the year, changes to the allowance for losses on loans, loan commitments and guarantees were as follows:

(\$ in millions)	2002			2001		
	Specific	General	Total	Specific	General	Total
Balance at beginning of year	370	3,110	3,480	431	2,399	2,830
Provision for loan losses	409	316	725	106	552	658
Write-offs*	(194)	-	(194)	(191)	-	(191)
Foreign exchange translation	(3)	(18)	(21)	24	159	183
Balance at end of year	\$582	\$3,408	\$3,990	\$370	\$3,110	\$3,480

*See note 6 for more information on loan write-offs.

8. Loan Commitments

The Corporation has two types of loan commitments. The first type are undisbursed amounts on signed loan agreements. The second type of commitment represents commitments made by EDC, for which terms related to the transaction such as interest rate type and disbursement schedule have not yet been determined. This category includes letters of offer accepted and outstanding of \$3,225 million as well as unallocated, confirmed lines of credit of \$590 million.

The Corporation has undisbursed signed loan commitments of \$3,512 million (2001 – \$4,938 million). Over the next two years, management estimates that the Corporation will disburse 65% of the remaining undisbursed commitments.

The projected disbursement of the signed loan commitments is as follows:

(\$ in millions)		2002		2001	
Year	Projected Disbursements	%	Projected Disbursements	%	
2002	–	–	2,207	45	
2003	1,962	56	487	10	
2004	319	9	93	2	
2005 and beyond	1,231	35	2,151	43	
Total	\$3,512	100	\$4,938	100	

Undisbursed commitments with their committed fixed rates or committed floating rate spreads are outlined in the following table. All yields are computed on a weighted average basis and the spreads over floating interest rates are represented mainly by LIBOR for U.S. dollars.

(\$ in millions)		2002				2001			
		Estimated		Spread		Estimated		Spread	
		Fixed	Spot			Fixed	Spot		
		\$	Yield %		\$		Yield %		
Sovereign		466	8.12	2.69	988	8.31	2.10		
Commercial		105	3.68	1.28	930	6.13	1.99		
Total		\$571	7.31	1.40	\$1,918	7.26	2.00		

9. Contingent Liabilities

Note 1 states that the Corporation is subject to a limit imposed by the Act on its contingent liability programs. The contingent liability as reported in prior years did not adjust the liability to reflect policy maximums. In 2002, the Corporation refined its estimates of the contingent liabilities to reflect policy maximums and 2001 has been restated accordingly.

The Corporation's contingent liabilities include both short-term and medium-term insurance policies and guarantees. The short-term program protects exporters of goods and services trading on credit terms of up to a year against non-payment due to commercial and political risks. Commercial risks covered include buyer insolvency, default, repudiation of goods by buyer and contract cancellation. Political risks covered by EDC are conversion and risk transfer, cancellation of export or import permits, or war-related risks. The medium-term program provides cover for sales on credit terms greater than one year and includes export credits insurance and guarantees, loan guarantees, performance insurance extending cover for risks inherent in performance and bid guarantees, and political risk insurance, which provides political risk protection for equity and other investments abroad.

Insurance Policies and Guarantees

As at December 31, 2002, the Corporation has insurance policies and guarantees outstanding of \$15,263 million (2001 – \$14,511 million) which mature as follows:

(\$ in millions)	2002				2001			
	Short-term Insurance	Medium-term Insurance	Guarantees	Total	Short-term Insurance	Medium-term Insurance	Guarantees	Total
2002	–	–	–	–	6,255	1,079	759	8,093
2003	7,097	1,568	2,116	10,781	–	1,582	1,419	3,001
2004	–	804	356	1,160	–	599	269	868
2005	–	484	186	670	–	682	214	896
2006	–	264	115	379	–	194	110	304
2007	–	214	441	655	–	46	25	71
2008 – 2012	–	525	328	853	–	348	103	451
2013 and beyond	–	111	654	765	–	13	814	827
Total	\$7,097	\$3,970	\$4,196	\$15,263	\$6,255	\$4,543	\$3,713	\$14,511

The major concentrations by location of risk are as follows:

(\$ in millions)	2002				2001			
	Short-term Insurance	Medium-term Insurance	Guarantees	Total	Short-term Insurance	Medium-term Insurance	Guarantees	Total
U.S.	4,226	115	3,082	7,423	U.S.	3,450	68	5,992
Canada	93	2,410	156	2,659	Canada	194	2,387	2,712
Mexico	147	219	35	401	Brazil	237	323	561
Brazil	188	181	1	370	Mexico	152	273	480
China	182	149	23	354	China	163	209	401
Other	2,261	896	899	4,056	Other	2,059	1,283	4,365
Total	\$7,097	\$3,970	\$4,196	\$15,263	Total	\$6,255	\$4,543	\$14,511

Reinsurance of \$2,026 million (2001 – \$1,618 million) has been deducted from the insurance policies outstanding.

Reinsurance premiums of \$24 million were deducted from total premiums earned for the year ended December 31, 2002 (2001 – \$21 million).

Guarantees

The Corporation issues bid security guarantees and performance security guarantees which provide insurance coverage to the exporter's bank for 100% of the bid or performance letter of guarantee value in the event of any call by the buyer. Each insurance guarantee issued stipulates a recovery provision whereby the third party, the exporter, agrees to indemnify the Corporation should a payment be made under the guarantee. Loan guarantees are issued by the Corporation and cover non-payment of principal, interest and fees due to banks and financial institutions providing loans to buyers of Canadian goods and services. Calls on guarantees result in the recognition by EDC of a loan asset on the balance sheet and become a direct obligation of the buyer.

As at December 31, 2002, the Corporation has insurance and loan guarantees outstanding of \$4,196 million (2001 – \$3,713 million).

(\$ in millions)	2002	2001
Loan Guarantees	2,998	2,567
Performance Security Guarantees	1,182	1,134
Bid Security Guarantees	11	7
Specific Transaction Guarantees	5	5
Total	\$4,196	\$3,713

10. Recoverable Insurance Claims

During the year, changes to the recoverable insurance claims were as follows:

(\$ in millions)	2002	2001
Balance at beginning of year	96	74
Claims paid	144	144
Claims recovered	(39)	(51)
Write-off of recoverable claims	(111)	(74)
Foreign exchange translation	-	3
Balance at end of year	\$90	\$96

Of the \$144 million in claim payments made during 2002, 78% were related to the short-term program. The largest concentrations of claim payments and recoveries were in the following countries:

2002			2001		
	Claims Paid	Claims Recovered	Claims Paid	Claims Recovered	
U.S.	63	8	U.S.	46	6
Mexico	19	1	Virgin Islands (British)*	45	34
Argentina	18	1	Pakistan	9	-
Germany	8	4	Canada	7	-
Belgium	5	-	Argentina	6	-
Other	31	25	Other	31	11
Total	\$144	\$39	Total	\$144	\$51

* Loss relates to financial difficulties of a parent company based in Singapore.

11. Allowance for Claims on Insurance

During the year, changes to the allowance for claims on insurance were as follows:

(\$ in millions)	2002	2001
Balance at beginning of year	464	439
Provision for claims on insurance	115	83
Write-off of recoverable claims	(111)	(74)
Claims expense	(8)	(7)
Foreign exchange translation	-	23
Balance at end of year	\$460	\$464

12. Provision for Credit Losses

The composition of the provision for credit losses, expressed in the income statement, is comprised as follows:

(\$ in millions)	2002	2001
Provision for losses on loans	930	208
Provision for claims on insurance	115	83
Provision for loan commitments	(231)	521
Provision for loan guarantees	26	(71)
Provision for Credit Losses	\$840	\$741

13. Debt Instruments

The Corporation issues debt instruments in world capital markets. Short-term payables consist of commercial paper and other short-term debt related instruments that are issued by EDC with maturities under one year. Long-term payables represent bonds and other long-term instruments issued by the Corporation in Canadian dollars, U.S. dollars and other currencies. EDC uses currency swaps to convert foreign denominated fixed rate notes primarily to U.S. dollars. Interest rate swaps are principally used to convert fixed rate instruments to floating rates primarily related to LIBOR. EDC uses derivative contracts and structured notes to minimize market risk and also for asset/liability management purposes.

Loans Payable

Loans payable (excluding derivatives) are comprised as follows:

(\$ in millions)	2002	2001
Short-term payables	3,909	3,723
Long-term payables		
- due within current year	3,671	2,926
- over one year	13,254	12,965
Total long-term payables	16,925	15,891
Subtotal	20,834	19,614
Plus: unamortized discounts and premiums	1	4
deferrals	(7)	(9)
Total Loans Payable	\$20,828	\$19,609

Unamortized discounts and premiums are associated with the issue of long-term debt and swaps. The amount of a discount or premium recorded represents the difference between the face value of an instrument and the actual cash flow at the time of settlement. Deferrals include gains incurred upon debt repurchases and swap unwinds. Such amounts are recorded as an asset or liability at the settlement date and amortized over the life of the instrument (in the case of discounts and premiums) or over the life of the replacement instrument (in the case of deferrals).

Accrued Interest

Accrued interest reflects corporate cash flow obligations and rights. Accrued interest is comprised as follows:

(\$ in millions)	2002	2001
Short-term	6	12
Long-term	248	403
Total Accrued Interest Payable	\$254	\$415

Where the interest payment amount is known in advance, as is the case with fixed and floating rate payments, the interest accrual allocates the cost over the period to payment. Where the interest payment amount is not known in advance an appropriate interest accrual is determined by reference to market prices.

Structured Notes

EDC has entered into a number of structured notes as part of its funding program. Structured notes are hybrid securities that combine fixed income products with derivative components.

Structured notes outstanding, included in loans payable, are as follows:

(\$ in millions)	2002	2001
Callable/extendible	2,251	1,850
Inverse floating rate note	564	567
Equity index	441	541
Dual currency	140	244
Other	209	178
Total	\$3,605	\$3,380

The Corporation has executed swap contracts to mitigate market risk on these structured borrowings. These contracts ensure that EDC will receive proceeds from the swap to meet the requirements of settling and servicing the debt obligation. The Corporation has in substance created floating rate debt by issuing bonds at fixed rates and entering into swap contracts whereby EDC receives fixed rate interest and pays interest at a floating rate. In swapping out of the underlying bond issue, the potential market risk has been converted to credit risk. Credit risk is managed by contracting with counterparties evaluated as creditworthy, based on treasury limits and policy guidelines as approved by the Board of Directors. Credit exposure on derivative financial instruments is further discussed in note 17.

14. Debt Instrument Maturities

EDC often combines debt instruments with derivative financial instruments to generate lower-cost funding. For example, a fixed rate debt issue can be combined with an interest rate swap to generate floating rate funding at a lower cost than issuing a floating rate note. The following table shows EDC's resulting net fixed and floating rate debt positions, as well as yields on those net positions.

(\$ in millions)	2002			2001		
Year of Maturity	Debt Issues	Swap Contracts	Net	Yield* (%)	Net	Yield* (%)
Fixed Rate Issues						
2002	-	-	-	-	956	7.04
2003	2,415	(1,210)	1,205	6.46	1,215	6.09
2004	2,816	(1,971)	845	5.91	852	6.13
2005	1,470	(1,470)	-	-	-	-
2006	1,518	(1,518)	-	-	-	-
2007	1,170	(380)	790	4.05	-	-
2008 to 2012	5,101	(4,852)	249	8.47	251	8.14
2013 and beyond	115	(83)	32	8.16	32	8.16
Subtotal	14,605	(11,484)	3,121	5.73	3,306	6.92
Floating Rate Issues						
2002	-	-	-	-	5,795	-
2003	5,165	1,261	6,426	-	2,198	-
2004	214	2,019	2,233	-	1,773	-
2005	49	1,479	1,528	-	258	-
2006	97	1,553	1,650	-	1,745	-
2007	75	388	463	-	181	-
2008 to 2012	223	4,957	5,180	-	4,550	-
2013 and beyond	406	67	473	-	380	-
Subtotal	6,229	11,724	17,953	1.27	16,880	2.21
Total	\$20,834	\$240	\$21,074		\$20,186	

* Refers to yield to maturity for fixed rate issues, and yield to reset for floating rate issues.

Credit exposure and other details on swap contracts are included as part of note 17.

15. Shareholder's Equity

The authorized share capital is \$1.5 billion consisting of 15 million shares with a par value of \$100 each. The number of shares issued and fully paid is 9.8 million (2001 – 9.8 million). No shares were issued in 2002 (2001 – nil). At the request of the shareholder, EDC paid a dividend of \$95 million during the year (2001 – nil).

16. Foreign Currency Balances

The Corporation has substantial assets and liabilities in U.S. dollars and in other currencies. In addition, EDC has derivative financial instruments denominated in various currencies. The purpose of these derivative financial instruments is to minimize the cost of capital and optimize yields for the Corporation, while remaining within treasury guidelines and limits approved by the Board of Directors.

The table below shows where EDC has used derivative financial instruments to manage the foreign currency exposures of its asset and liability positions. The resulting net foreign currency exposure as at December 31 (expressed in Canadian equivalent dollars) is as follows:

	2002						2001			
	Assets			Liabilities			Net Foreign Currency Exposure		Net Foreign Currency Exposure	
	Gross	DFI*	Net	Gross	DFI*	Net	Exposure	Rate	Exposure	Rate
U.S. Dollars	19,981	714	20,695	(12,183)	(8,503)	(20,686)	9	1.5796	(58)	1.5926
Euro	461	–	461	(234)	(223)	(457)	4	1.6564	2	1.4185
British Pounds	984	–	984	(4)	(976)	(980)	4	2.5428	3	2.3160
Japanese Yen	108	(55)	53	(663)	610	(53)	–	0.0133	–	0.0122
New Zealand Dollars	–	–	–	(207)	207	–	–	0.8276	–	0.6636
Norwegian Krone	–	–	–	(803)	803	–	–	0.2278	–	0.1779
Australian Dollars	–	–	–	(124)	124	–	–	0.8890	–	0.8156
Swedish Krona	52	–	52	–	(52)	(52)	–	0.1818	–	0.1525
Danish Krone	28	(28)	–	–	–	–	–	0.2230	–	0.1908

* DFI (Derivative Financial Instruments) includes swaps and foreign exchange contracts. See note 17.

The Corporation experienced a foreign exchange gain of \$2.6 million in 2002 (2001 – gain of \$75 thousand). This amount is included in interest expense. Throughout the year, EDC's assets and liabilities were denominated mainly in U.S. dollars, euro and British pounds.

17. Derivative Financial Instruments

The Corporation actively manages its exposure to market risk through the use of derivative financial instruments. Treasury policy and guidelines limit the use of derivatives. EDC does not use derivatives for speculative purposes. It uses a variety of these instruments to manage funding costs and investment returns, and to implement asset/liability management strategies in order to minimize market risks in EDC's portfolios. The credit risk in these instruments is managed in accordance with policies established in EDC's Market Risk Management Department and approved by the Board of Directors.

EDC currently uses, but is not limited to, the following types of instruments:

Interest rate swaps – transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged.

Currency swaps – transactions in which two parties exchange currencies at inception and at maturity, as well as interest flows on the exchanged amounts on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest.

Equity index swaps – transactions used to eliminate exposure to movements in an equity index on a debt issue undertaken by the Corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed-upon equity index and the other a short-term interest rate index. The principal may either resemble an interest rate swap, in that no exchange of notional amounts occurs, or a currency swap, in which currencies will be exchanged at both inception and maturity.

Foreign exchange contracts – commitments to purchase or sell foreign currencies for delivery at a specified date in the future at a fixed rate.

In any transaction there is a potential for loss. This loss potential is represented by (1) credit risk, wherein the counterparty fails to perform an obligation as agreed upon, causing the other party to incur a financial loss, and (2) market risk, where an exposure exists as a result of changes in foreign exchange rates or interest rates.

The Corporation manages its exposure to credit risk by contracting only with creditworthy counterparties, and in certain cases entering into collateral agreements with those counterparties. Collateral agreements provide for the posting of collateral by the counterparty when EDC's exposure to that entity exceeds a certain threshold. Where EDC has a collateral agreement with a counterparty, the counterparty must have a minimum credit rating of A3. Where EDC does not have a collateral agreement with a counterparty, the counterparty must have a minimum credit rating of A2 for transactions of less than three years, and a minimum credit rating of Aa3 for transactions of greater than three years. Internal policies and procedures establish credit approvals, controls and monitoring. The Corporation does not anticipate any significant non-performance by the counterparties.

The Corporation manages its exposure to market risk (interest rate and foreign exchange) using limits developed in consultation with the Department of Finance and approved by the Board of Directors.

Credit impairment in the derivative financial instruments, marketable securities and investments has been estimated not to exceed \$20 million. Accordingly, an allowance for credit risk of \$20 million (2001 – \$20 million) has been established. This amount is included in accounts payable.

Notional principal amounts outstanding as at December 31 are listed below for interest rate, currency swap and foreign exchange contracts entered into by the Corporation.

(\$ in millions)				2002	2001
	Remaining Term to Maturity				
	Under 1 Year	1 to 3 Years	Over 3 Years	Total	Total
Currency swaps	620	1,644	6,472	8,736	8,811
Interest rate swaps	2,063	3,864	1,729	7,656	5,416
Foreign exchange contracts	3,248	–	–	3,248	3,149
Total Derivative Financial Instruments	\$5,931	\$5,508	\$8,201	\$19,640	\$17,376

These same derivatives can be measured by book value and fair value.

	2002	2001
Book value:		
Asset	171	167
Liability	(384)	(516)
Fair value:		
Positive	543	293
Negative	(424)	(532)

Swaps that have a positive fair value are those contracts that, if settled immediately, would result in a gain. Conversely, immediate settlement of a swap with a negative fair value would result in a loss.

18. Fair Value of Financial Instruments

The following chart outlines the book values and the fair values of the Corporation's financial instruments. As with any estimate, uncertainty is inherent due to the unpredictability of future events. In the case of estimating the fair value of the Corporation's financial instruments, this uncertainty is magnified due to the large number of assumptions used and the wide range of acceptable valuation techniques. Estimates of fair values are based on market conditions at a certain point in time, and may not be reflective of future market conditions. Thus, the estimates of the value of financial instruments outlined as follows do not necessarily reflect the actual values that may occur should the instruments be exchanged in the market. It is not the Corporation's intent to settle these items in the market before they mature.

The aggregate of the estimates of the fair value of financial instruments presented as follows does not reflect an estimate of the underlying value of the Corporation.

(\$ in millions)	2002		2001	
	Book Value	Fair Value	Book Value	Fair Value
Balance Sheet Financial Instruments				
Cash and marketable securities:				
Fixed rate securities	557	575	430	438
Floating rate securities	2,276	2,276	1,752	1,753
Investments	75	75	173	173
Performing fixed rate loans	12,703	12,261	12,132	11,160
Performing floating rate loans	11,674	9,123	11,713	10,252
Impaired loans (net of specific allowance and non-accrued capitalized interest)	676	676	538	538
Subtotal	27,961	24,986	26,738	24,314
Less: Non-accrued capitalized interest on				
Performing Loans*	425	—	499	—
General allowance for loan losses (note 7)	3,031	—	2,522	—
Total	\$24,505	\$24,986	\$23,717	\$24,314
Accounts payable	155	155	131	131
Loans payable:				
Fixed rate	14,855	15,518	12,992	13,276
Floating rate	6,233	6,496	7,037	7,042
Total	\$21,243	\$22,169	\$20,160	\$20,449

* Represents the unamortized balance that accrued while the loan was impaired.

Note: The book value of assets and liabilities shown above differs slightly from the balances on the financial statements due to the exclusion of deferrals that do not have a fair value.

(\$ in millions)	2002		2001	
	Fair Value		Fair Value	
Off-Balance Sheet Financial Instruments				
Currency swap contracts	102		(319)	
Interest rate swap contracts	57		107	
Foreign exchange contracts	(40)		(27)	
Undisbursed loan commitments:				
Fixed rate	180		251	
Floating rate	368		221	

The fair values of marketable securities and investments are estimated using observable market prices. If such prices are not available, a valuation technique is used that is consistent with accepted economic pricing methodologies.

In order to estimate the fair value of its performing loans receivable, the Corporation separates its loans into risk pools and calculates the net present value of cash flows of principal and interest. The discount rate for the fixed rate portfolio is derived by taking the base rate, U.S. Treasury for U.S. dollar fixed rate cash flows, for example, to which a spread for credit risk is added to each credit pool. The discount rate for the floating rate portfolio is derived similarly by adding to the base rate a spread for credit risk depending on the grade of credit. The fair value of undisbursed loan commitments is estimated using the same methodology used in the performing loans receivable estimate.

Accounts payable are outstanding for only a short period of time. Thus, the fair value of accounts payable is estimated to be equal to their book value.

The estimate of the fair value of loans payable is based on a discounted cash flow approach using current market rates.

The estimate of the fair value of the foreign exchange contracts is calculated using the current market spot and forward exchange rates at the end of the year. Currency swap contracts and interest rate swap contracts are valued using a discounted cash flow approach. The discount rate used to estimate the fair value of the swap contracts is based on the current market swap rates at the end of the year as issued by Reuters and Telerate. These rates are used to calculate the present value of future interest payments and principal cash flows related to the swap contracts.

19. Related Party Transactions

The Corporation enters into transactions with other government departments, agencies and Crown corporations in the normal course of business.

Canada Account Administrative Expense Recovery

As described in note 21, EDC administers certain financial and contingent liability transactions on behalf of the Government of Canada, known as the "Canada Account". EDC receives compensation for expenses and overhead relating to Canada Account activities. In 2002, EDC retained \$7 million (2001 – \$12 million) from Canada Account receipts and recoveries for these expenses and overhead.

Loan with Recourse to the Consolidated Revenue Fund

The Corporation has loans receivable of \$1,368 million (2001 – \$1,222 million) and undisbursed commitments of \$130 million (2001 – \$275 million), for which it has recourse to the Consolidated Revenue Fund of Canada in the event of a loan default.

Debt Relief

When sovereign borrowers experience financial difficulties and are unable to meet their debt obligations, sovereign creditors, including the Government of Canada, agree at an international forum, the Paris Club, to formally reschedule the borrower's debt obligations. From time to time and on a case-by-case basis, the most heavily indebted sovereign borrowers are granted debt reduction or debt service relief by the Government of Canada. The granting of debt reduction or relief by the Paris Club is contingent upon the sovereign borrower's ability to implement and maintain economic programs outlined by the International Monetary Fund.

In the past, the Government of Canada has reimbursed the Corporation an amount equal to the debt relief granted by the Government of Canada to the Corporation's sovereign borrowers. The formula for calculating the amount to be paid to the Corporation was amended effective April 1, 2001 in two ways. Firstly, for new loans issued by the Corporation to sovereign borrowers which were on the Paris Club debt relief list as at April 1, 2001, the Government of Canada has no obligation to compensate the Corporation for further debt relief granted to such borrowers. Secondly, for any debt reduction for new loans resulting from unilateral debt relief measures or new debt reduction for obligations contracted prior to April 1, 2001, EDC will share in the costs of debt forgiveness to the amount of its appropriate specific allowances.

Amounts received for debt relief arrangements on sovereign impaired loans are credited to the book value of the loans similar to the treatment accorded to other receipts on impaired loans. To the extent that amounts received exceed the book value of the loans as a result of non-accrued capitalized interest, debt relief income is recorded, and any provisions are returned to income.

Debt relief in the amount of \$96 million (2001 – \$1 million) was recognized as income. During the year, the Corporation received in total \$402 million (2001 – \$13 million) pursuant to debt relief arrangements, and of this amount, \$96 million represented the non-accrued capitalized interest associated with these loans and was recognized as debt relief income in the income statement.

Dividend

EDC paid a dividend to the Government of Canada in the amount of \$95 million during the year (2001 – nil) at the request of the shareholder.

20. Employee Benefits

Pension Plan

Effective April 24, 2000, the Corporation established a pension plan for its employees. The plan is a defined benefit plan, providing benefits to retirees based on years of service and the best five consecutive years' average salary of the employees. All permanent employees of EDC are members of the pension plan, however, employee contributions to the plan are optional.

The benefits that were transferred from the Public Service Superannuation Fund with respect to both the Registered Plan and the Supplementary Plan are included in the projected obligation as at December 2002. As of December 31, 2002, the Government of Canada had transferred a total of \$110 million to the Corporation's registered pension plan to fund the pension obligation that was transferred. Included in pension assets is \$14 million owing from the Government of Canada to fund the balance of this obligation. Also included in pension assets is \$33 million owing from the Government of Canada to fund the liabilities transferred to the Supplementary Plan. The PSSA is in the process of establishing the Regulation required to enable it to transfer the obligation and the corresponding assets with respect to the Supplementary Plan. It is anticipated that the regulation will be in place and the transfer will occur in 2003.

Other Benefits Plan

The Corporation maintains a retiring allowance program and provides certain life insurance, health and dental care benefits to retired employees. This plan is unfunded.

The following presents the financial position of EDC's Employee Benefit Plans at December 31, 2002.

(\$ in thousands)	2002		2001	
	Pension Benefits Plan	Other Benefits Plan	Pension Benefits Plan	Other Benefits Plan
Accrued Benefit Obligation:				
Obligation beginning of year	126,604	28,604	6,689	22,474
Current service costs	12,733	2,881	11,087	1,879
Interest cost on benefit obligation	10,114	2,256	1,214	1,743
Buyback contributions	722	-	-	-
Obligation transferred from PSSA	4,982	-	123,227	-
Actuarial (gain)/loss including change in basis	3,665	1,215	(13,941)	2,687
Benefits paid	(1,100)	(659)	(1,672)	(179)
Accrued benefit obligation at end of year	157,720	34,297	126,604	28,604
Fair Value of Plan Assets:				
Fair value at beginning of year	137,786	-	6,070	-
Actual return on plan assets	(4,764)	-	(556)	-
Transfer from PSSA	-	-	80,000	-
Receivable from PSSA	30,749	-	43,227	-
Employer contributions	7,618	659	7,641	179
Employee contributions	3,771	-	3,076	-
Benefits paid	(1,100)	(659)	(1,672)	(179)
Fair value at end of year	174,060	-	137,786	-
Funded Status - plan surplus/(deficit)	16,340	(34,297)	11,182	(28,604)
Unamortized net actuarial (gain)/loss	(15,466)	3,756	(12,541)	2,576
Unamortized transitional obligation	-	9,004	-	9,608
Accrued benefit asset/(liability)	\$874	\$(21,537)	\$(1,359)	\$(16,420)

Included in the accrued benefit obligation is an amount of \$8,023 thousand (2001 - \$1,905 thousand) and included in the fair value of plan assets is \$34,221 thousand (2001 - \$1,372 thousand), both in respect to the Supplementary plan.

Net Employee Benefits Expense

(\$ in thousands)

	2002		2001	
	Pension Benefits Plan	Other Benefits Plan	Pension Benefits Plan	Other Benefits Plan
Current service costs (net of employee contributions)	9,684	2,881	8,011	1,879
Interest cost on benefit obligation	10,114	2,256	1,214	1,743
Expected return on plan assets	(12,608)	-	(800)	-
Amortization of transitional obligation	-	604	-	604
Amortization of net actuarial (gain)/loss	(1,806)	30	-	-
Total	\$5,384	\$5,771	\$8,425	\$4,226

Assumptions

	2002		2001	
	Pension Benefits Plan	Other Benefits Plan	Pension Benefits Plan	Other Benefits Plan
Expected long-term rate of return on assets	7.5%	n/a	8.0%	n/a
Discount rate on projected benefit obligation	6.75%	6.75%	7.0%	7.0%
Inflation	3.0%	3.0%	3.0%	3.0%
Rate of compensation increase	Inflation + 1% productivity + merit	Inflation + 1% productivity + merit	Inflation + 1% productivity + merit	Inflation + 1% productivity + merit

The initial annual rate of increase for covered medical care benefits is assumed to be 8%. This rate is projected to trend down over 7 years to an ultimate rate of 4%. For dental care, the trend rate used was 4%.

21. Canada Account Transactions

Pursuant to the Act, the Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions on behalf of the Government of Canada. These transactions and the legislative authorities that underlie them have come to be known collectively as the "Canada Account". The Board of Directors is responsible only for ensuring that the transactions made by the Corporation under the Canada Account are administered appropriately. Accounts for these transactions are maintained separately from the Corporation's accounts and are consolidated annually as at March 31 with the financial statements of the Government of Canada, which are reported upon separately by the Government and audited by the Auditor General of Canada. The assets under the Canada Account, mainly loans receivable and accrued interest and fees recorded in accordance with the accounting policies and practices of the Government of Canada, amounted to \$3,069 million at December 31, 2002 (2001 - \$2,774 million).

The Act allows the Canada Account to have outstanding loans and commitments to foreign borrowers, and liabilities under contracts of insurance and other agreements up to a maximum of \$13 billion. The position against this limit, determined in accordance with the requirements of the Act, is \$10,305 million (2001 - \$5,030 million).

As at the end of December 2002, total Ministerial Authorizations (M.A.'s) issued and approved totaled \$490 million and unallocated amounts under Lines of Credit totaled \$187 million for Canada Account. These amounts have been approved by the Minister of International Trade and the Minister of Finance in support of potential new transactions to be signed. The position against the statutory limit will increase accordingly as each new obligation is signed by the Corporation that has the effect of extending credit.

During 2001, a new methodology to compensate EDC for expenses and overhead related to Canada Account activities was instituted. This resulted in the Corporation retaining \$7 million (2001 - \$12 million) from Canada Account receipts and recoveries for these expenses and overhead.

22. Reclassification of Comparative Figures

Certain 2001 comparative figures have been reclassified to conform to the presentation adopted in 2002.



**Farm
Credit
Canada**





Farm Credit Canada
Agriculture. It's all we do.

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. This system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

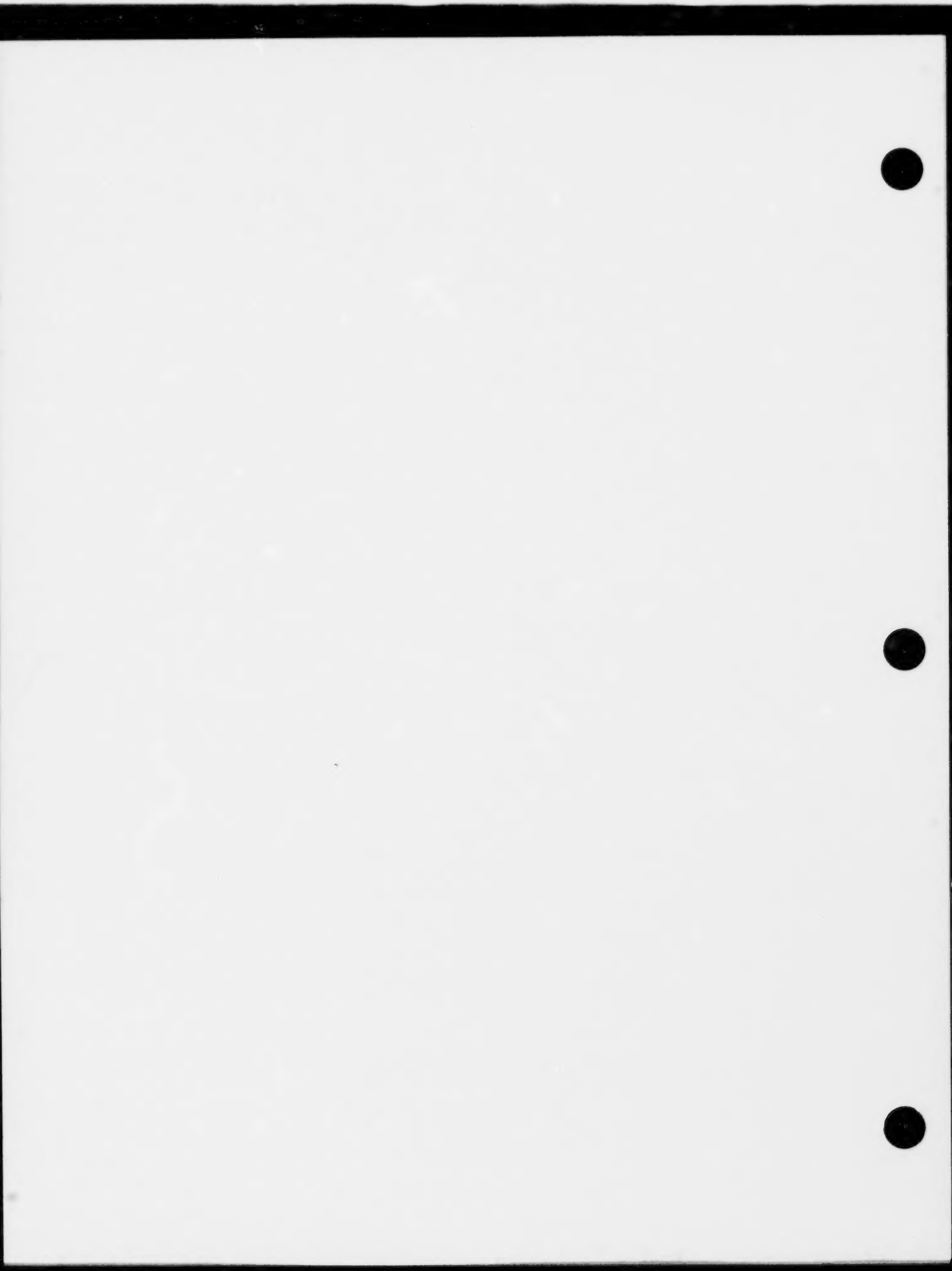
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, which is composed of Directors who are not employees of the corporation. The Audit Committee meets with management, the internal auditors and the external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the corporation and for issuing her report thereon.

John J. Ryan
President and
Chief Executive Officer

Regina, Canada
May 9, 2003

Moyez Somani
Executive Vice-President and
Chief Financial Officer





Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Agriculture and Agri-Food:

I have audited the balance sheet of Farm Credit Canada as at March 31, 2003, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act* and the by-laws of the corporation.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 9, 2003

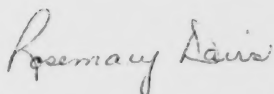
Balance Sheet

As at March 31 (thousands of dollars)

	2003	2002
Assets		
Cash and cash equivalents	\$ 146,683	\$ 190,022
Temporary investments (Note 4)	256,782	159,538
Accounts receivable	83,833	83,833
	487,298	433,393
Loans receivable – net (Notes 5 and 6)	8,467,106	7,418,455
Venture capital investments (Note 7)	2,000	–
	8,469,106	7,418,455
Real estate acquired in settlement of loans	3,470	10,113
Equipment and leasehold improvements (Note 8)	26,962	22,006
Other assets	4,325	11
	34,757	32,130
Total Assets	\$ 8,991,161	\$ 7,883,978
Liabilities		
Accounts payable and accrued liabilities	\$ 25,554	\$ 21,950
Accrued interest on borrowings	75,175	96,423
	100,729	118,373
Borrowings (Note 9)		
Short-term debt	1,512,419	2,050,957
Long-term debt	6,494,467	4,948,182
	8,006,886	6,999,139
Other liabilities and deferred fees	40,775	20,528
	8,148,390	7,138,040
Equity		
Capital	507,725	507,725
Retained earnings	335,046	238,213
	842,771	745,938
Total Liabilities and Shareholder's Equity	\$ 8,991,161	\$ 7,883,978

Commitments and contingent liabilities (Note 15). *The accompanying notes are an integral part of the financial statements.*

Approved:



Rosemary Davis
Chair, Board of Directors



Marie-Andrée Mallette
Chair, Audit Committee

Statement of Operations and Retained Earnings

For the year ended March 31 (thousands of dollars)

	2003	2002
Interest Income		
Loans receivable	\$ 545,354	\$ 527,616
Investments	12,814	17,266
	<u>558,168</u>	<u>544,882</u>
Interest expense		
Short-term debt	52,068	79,727
Long-term debt	236,774	263,981
Net interest income	<u>269,326</u>	<u>201,174</u>
Provision for credit losses (Note 6)	67,157	45,500
Net interest income after provision for credit losses	<u>202,169</u>	<u>155,674</u>
Other Fees and Income	<u>13,948</u>	<u>14,715</u>
Income before Administration Expenses	<u>216,117</u>	<u>170,389</u>
Administration expenses (Note 10)	<u>119,284</u>	<u>101,616</u>
Income before Taxes	<u>96,833</u>	<u>68,773</u>
Current income taxes (Note 11)	—	1,885
Future income taxes (Note 11)	—	25,625
Income taxes	<u>—</u>	<u>27,510</u>
Net Income	<u>96,833</u>	<u>41,263</u>
Retained earnings, beginning of year	238,213	324,852
Dividend	—	(754)
Adjustment for future income taxes (Note 11)	—	(127,148)
Retained Earnings, end of year	<u>\$ 335,046</u>	<u>\$ 238,213</u>

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

For the year ended March 31 (thousands of dollars)

	2003	2002
Operating Activities		
Net income	\$ 96,833	\$ 41,263
Items not involving cash and cash equivalents:		
Future income taxes	—	25,625
Provision for credit losses (Note 6)	67,157	45,500
Amortization of bond premiums/discounts	39,415	36,772
Change in accrued interest receivable	7,189	8,071
Change in accrued interest payable	(20,135)	(24,498)
Other	(10,565)	(54,739)
Cash provided by operating activities	179,894	77,994
Investing Activities		
Loans receivable disbursed	(2,854,300)	(2,293,800)
Loans receivable repaid	1,742,181	1,459,797
Change in temporary investments	(97,244)	(139,660)
Venture capital investments disbursed	(2,000)	—
Change in real estate held	6,640	15,005
Other	15,712	(11,649)
Cash used in investing activities	(1,189,011)	(970,307)
Financing Activities		
Long-term debt repaid to Canada	—	(578,491)
Long-term debt from capital markets	2,812,132	2,078,122
Long-term debt repaid to capital markets	(1,305,262)	(848,708)
Change in short-term debt	(541,092)	149,783
Dividend paid	—	(754)
Cash provided by financing activities	965,778	799,952
Decrease in cash and cash equivalents	(43,339)	(92,361)
Cash and cash equivalents, beginning of year	190,022	282,383
Cash and cash equivalents, end of year	\$ 146,683	\$ 190,022
Supplemental Information		
Cash interest paid during the year	\$ 310,090	\$ 379,115

The accompanying notes are an integral part of the financial statements.

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The corporation is wholly owned by the Government of Canada.

On April 2, 1993, the *Farm Credit Corporation Act* was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which were repealed. The Act continues Farm Credit Canada with its corporate office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the *Farm Credit Canada Act* received Royal Assent, which updated the *Farm Credit Corporation Act*. This new act continues the corporation as Farm Credit Canada and allows the corporation to offer producers and agribusiness operators a broader range of services.

The corporation's role is to enhance rural Canada by providing business and financial solutions for farm families and agribusiness. Additionally, the corporation may deliver specific programs for the Government of Canada on a cost-recovery basis.

Capital

Capital of the corporation consists of capital contributions made by the Government of Canada net of the March 31, 1998 reallocation of \$660.6 million to eliminate the corporation's accumulated deficit.

As of March 31, 2003, capital payments received from the Government of Canada amounted to \$1,168.3 million (2002 – \$1,168.3 million). The statutory limit for that same period was \$1,175.0 million (2002 – \$1,175.0 million).

Limits on borrowing

The *Farm Credit Canada Act* restricts the total direct and contingent liabilities of the corporation to 12 times its equity. This limit can be increased to 15 times the equity with the prior approval of the Governor in Council.

At March 31, 2003, the corporation's total liabilities were 9.7 times the equity of \$842.8 million (2002 – 9.6 times the equity of \$745.9 million).

2. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents are comprised of bank account balances, net of outstanding cheques and short-term highly liquid investments that are readily convertible to cash with a maturity date of 90 days or less from the date of acquisition.

Temporary investments

Temporary investments are defined as investments with maturity dates between 91 to 365 days from the date of acquisition. They are acquired primarily for liquidity purposes and are intended to be held to maturity. Temporary investments are carried at cost; however, where there has been a significant and other than temporary decline in market value, temporary investments are written down to market value. Interest income, amortization of premiums and discounts, gains and losses on disposal, and write-downs to market value are included in investment income.

Loans receivable

Loans receivable is stated net of the allowance for credit losses.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan where a payment is 90 days past due is classified as impaired unless the loan is fully secured. When a loan is specifically classified as impaired, the carrying amount is reduced to its estimated realizable amount. Changes in the estimated realizable amount arising subsequent to initial impairment are reflected as an adjustment to the provision for credit losses and allowance.

Interest income is recorded on an accrual basis until such time as a loan is specifically classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to accrual status when all provisions for credit losses are reversed and, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees received as compensation for the alteration of lending agreements are considered an integral part of the yield earned on the loans. Such loan fees are amortized to interest income over the average remaining term of the loans, on a straight line basis.

Allowance for credit losses

The allowance for credit losses represents management's best estimate of the credit losses in the loan portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio and on other factors including the composition and quality of the portfolio and changes in economic conditions. As a single industry lender, the corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting agricultural regions and sectors. Accordingly, management also considers the impact of specific factors, such as land value trends, federal and provincial government support programs, commodity prices and climatic conditions. Evidence of potential impairment can exist as early as the time of disbursement of funds to the borrower.

In determining the allowance for credit losses, management segregates credit losses into three components: specific, general allocated and general unallocated.

Based on a loan-by-loan review, the specific allowance is established to value impaired loans at the lower of their recorded investment or the estimated realizable amount of their underlying security. Estimated realizable amounts are determined as the fair value of the underlying security of the loans, taking into account the estimated time and costs required to realize the security.

The general allocated allowance represents an estimate of probable losses in those loans in the portfolio that have shown deterioration in credit quality, but do not meet the internal criteria that would require a specific allowance to be taken. A model is used to determine the probable credit losses for such loans. The model considers specific factors that indicate deterioration in credit quality to estimate probable credit losses on a loan by loan basis.

The general unallocated allowance represents management's best estimate of the probable unidentified losses in the portfolio that have not been included in the specific allowance or general allocated allowance. This assessment of probable unidentified losses is supported by a review of recent events and changes in economic conditions that have occurred, but have not yet manifested themselves as observable deterioration in credit quality in specific loans.

The allowance is increased by provisions for credit losses and reduced by loan write-offs net of recoveries.

The allowance for credit losses is an accounting estimate based on historic loan loss experience and an assessment of current conditions. Events may occur that render the underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

Real estate acquired in settlement of loans

Real estate acquired in settlement of loans which is held for sale is initially recorded at the lower of the recorded investment in the foreclosed loan and fair value, less cost to sell. Fair value less cost to sell is the amount which could be realized in an arm's length disposition, considering the estimated time required to realize the security, the estimated cost of realization and any amounts legally required to be paid to the borrower.

Net operating costs incurred on real property held for sale are included as a component of other fees and income. Recoveries arising from the disposal of real property held for sale are recognized when title to the property passes to the purchaser. The carrying value of real property held for sale is also adjusted to reflect significant decreases in the estimated fair value subsequent to acquisition. These recoveries and adjustments are included as a component of other fees and income.

Venture capital investments

Venture capital investments where the corporation does not have significant influence are recorded at cost, with interest and dividends included in income when received. Investments over which the corporation has significant influence are recorded using the equity method. Under this method, the pro rata share of undistributed post-acquisition earnings is included in income for the period. Dividends received or receivable reduce the carrying value of the investment.

Gains or losses on disposal are recognized in income when realized. When the value of an investment is permanently impaired, the investment is written down to recognize the loss.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the equipment and leasehold improvements using the following methods and terms:

	Methods	Terms
Office equipment and furniture	Declining balance	20% per annum
Computer equipment and software	Straight-line	3 and 5 years
Leasehold improvements	Straight-line	Lease term

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at the monthly average exchange rates prevailing throughout the year.

Exchange gains or losses, are reported net of the exchange gains and losses from currency exchange agreements. These amounts are included as a component of interest income or expense.

Long-term debt

The difference between the ultimate amounts payable, at the initial exchange rates if the long-term debt is denominated in a foreign currency, and the cash proceeds of debt issues are amortized on a straight-line basis and applied to interest expense over the lives of the obligations.

Derivative financial instruments

Market risk is the risk of loss due to an exposure to changes in foreign exchange rates or interest rates. Derivative financial instruments, which are used to manage this risk, create rights and obligations that have the effect of transferring between the parties to the instrument one or more of the financial risks inherent in an underlying primary financial instrument. The corporation manages its exposure to market risk using limits approved by the Board of Directors. These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognized on the balance sheet upon issuance and removed when they expire or are terminated. Amounts due from counterparties are reflected as a component of accounts receivable and amounts due to counterparties are reflected as a component of accounts payable and accrued liabilities. Receipts and payments are accounted for on an accrual basis in the same period and the same category to which the contract is related.

Premiums received or paid for derivative financial instruments are deferred and amortized over the life of the underlying instrument as an adjustment to interest expense. Unamortized balances of premiums received or paid are included on the balance sheet in accounts receivable or other liabilities and deferred fees, respectively.

Employee future benefits

Pension and post-retirement benefits

The corporation accrues its obligations under employee benefit plans including pension plans and post-retirement plans other than pensions and the related costs, net of plan assets. The corporation has adopted the following policies:

- the cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs; and
- for the purpose of calculating the expected return on plan assets, those assets are valued at market value.

The corporation sponsors three defined benefit pension plans and a defined contribution pension plan. All plans require employees to make contributions and are available to employees immediately upon receiving permanent employee status. The defined benefit pension plans provide pension based on years of service, contributions and average earnings prior to retirement.

Actuarial valuations of the pension plans are made periodically for accounting purposes based on the market-related discount rate. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

Post-employment benefits

The corporation accrues its obligations for post-employment benefits. The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on services.

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The corporation also provides health care benefits to employees on long-term disability.

Use of estimates

The preparation of the corporation's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant areas requiring the use of management estimates are the determination of the allowance for credit losses, the provision for employee future benefits and the fair value for financial instruments. Actual results could differ from those estimates.

3. Acquisition

On October 28, 2002, a wholly owned subsidiary of the corporation, 4117468 Canada Ltd., acquired 100 percent of the issued and outstanding shares of Settler Computer Technologies Inc., a software developer specializing in agricultural accounting software. 4117468 Canada Ltd. and Settler Computer Technologies Inc. were amalgamated on October 30, 2002, continuing as Settler Computer Technologies Inc. The results of Settler Computer Technologies Inc. have been included in these financial statements since the date of acquisition.

The aggregate purchase price of \$2.2 million was paid in cash of \$1.3 million and \$0.9 million in notes payable. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

(thousands of dollars)

Current assets	\$	39		
Equipment		85		
Intangible assets		611		
Goodwill		2,705		
Total assets acquired			\$	3,440
Total liabilities assumed				(1,239)
Net assets acquired			\$	2,201

Of the \$611,000 in acquired intangible assets, \$595,000 was assigned to software and market development costs and the remainder to acquired customer lists.

Pursuant to an Order in Council, all of the assets of Settler Computer Technologies Inc. will be transferred to the corporation within one year of the acquisition date and Settler Computer Technologies Inc. will be dissolved.

4. Temporary investments

(thousands of dollars)

		2003		2002
Issued or guaranteed by Canada	\$	37,814	\$	148,380
Yield (%)		3.11%		2.61%
Other institutions	\$	218,968	\$	11,158
Yield (%)		3.10%		2.14%
	\$	256,782	\$	159,538

Other institutions consist of short-term instruments issued by institutions with credit ratings of R-1L or higher. As at March 31, 2003, the largest total investment in any one institution was \$62.0 million (2002 - \$64.8 million).

5. Loans receivable

The following table summarizes the contractual maturity and effective interest rates of the performing loans receivable at March 31, 2003. The yields are computed on a weighted average basis by amount and term. Floating rate loans are linked to the bank prime rate and re-price with changes in the rate.

(thousands of dollars except %)

2003				
	Under 1 year	1 to 5 years	Over 5 years	Total
Floating	\$ 128,689	\$ 3,596,518	\$ 463,616	\$ 4,188,823
Yield	5.82%	5.65%	5.67%	5.66%
Fixed	867,845	2,987,779	625,210	4,480,834
Yield	7.11%	7.57%	8.13%	7.56%
Performing loans	\$ 996,534	\$ 6,584,297	\$ 1,088,826	8,669,657
Impaired				142,934
Loans receivable – gross				8,812,591
Allowance for credit losses				(345,485)
Loans receivable – net				\$ 8,467,106

2002				
	Under 1 year	1 to 5 years	Over 5 years	Total
Floating	\$ 168,634	\$ 2,408,103	\$ 379,791	\$ 2,956,528
Yield	4.72%	4.66%	4.62%	4.66%
Fixed	770,751	3,121,721	739,157	4,631,629
Yield	7.10%	7.82%	8.37%	7.79%
Performing loans	\$ 939,385	\$ 5,529,824	\$ 1,118,948	7,588,157
Impaired				127,636
Loans receivable – gross				7,715,793
Allowance for credit losses				(297,338)
Loans receivable – net				\$ 7,418,455

Management estimates that annually, over the next three years, approximately 7.5% (2002 – approximately 8.3%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2003, \$34.3 million (2002 – \$25.1 million) of loans receivable were denominated in a foreign currency (USD). These loans are fully swapped into Canadian dollars.

Concentrations of credit risk may arise from exposures to groups of debtors having similar characteristics, such as location or industry, such that their ability to meet their obligations may be affected similarly by changes in economic or other conditions. The corporation monitors the concentration of loans and believes it does not have any significant concentrations in any specific sector or location. The concentration of performing loans by sector and geographic area are displayed in the tables on page 63.

Sector distribution*(thousands of dollars except %)*

	2003		2002	
Cash Crops	\$ 2,913,005	33.6%	\$ 2,754,501	36.3%
Dairy	1,976,682	22.8%	1,661,806	21.9%
Beef	866,966	10.0%	773,992	10.2%
Value Added	823,617	9.5%	561,524	7.4%
Hogs	849,626	9.8%	705,699	9.3%
Poultry	650,224	7.5%	553,935	7.3%
Other	589,537	6.8%	576,700	7.6%
Performing loans	\$ 8,669,657	100.0%	\$ 7,588,157	100.0%

Geographic distribution*(thousands of dollars except %)*

	2003		2002	
Western	\$ 1,794,619	20.7%	\$ 1,563,160	20.6%
Prairie	2,236,771	25.8%	2,063,979	27.2%
Ontario	2,904,335	33.5%	2,420,622	31.9%
Quebec	1,170,404	13.5%	1,039,578	13.7%
Atlantic	563,528	6.5%	500,818	6.6%
Performing loans	\$ 8,669,657	100.0%	\$ 7,588,157	100.0%

6. Allowance for credit losses*(thousands of dollars)*

	2003	2002
Balance, beginning of year	\$ 297,338	\$ 269,250
Write-offs, net of recoveries	(19,010)	(17,412)
Provision for credit losses	67,157	45,500
Balance, end of year	\$ 345,485	\$ 297,338
Specific allowance	\$ 47,858	\$ 39,688
General allocated and unallocated allowance	297,627	257,650
Balance, end of year	\$ 345,485	\$ 297,338

As at March 31, 2003, the total recorded investment in loans receivable against which a specific allowance has been identified was \$142.9 million (2002 - \$127.6 million). The general allowance was established against the remaining \$8,669.7 million (2002 - \$7,588.1 million) investment in loans receivable.

7. Venture capital

During the year, the corporation launched its venture capital activity, which provides investment, deal organization, structuring and portfolio management to the agricultural industry. Investments will be held for between 3 to 7 years through a variety of instruments. There was a single venture capital investment at March 31, 2003, in the distribution sector with a carrying value by type of investment as follows:

(thousands of dollars)

	2003	2002
Preferred shares	\$ 1,000	\$ -
Debentures	1,000	-
	\$ 2,000	\$ -

8. Equipment and leasehold improvements

(thousands of dollars)

		2003		2002
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment and furniture	\$ 11,646	\$ 5,569	\$ 6,077	\$ 4,520
Computer equipment and software	37,411	23,281	14,130	13,069
Leasehold improvements	12,783	6,028	6,755	4,417
	\$ 61,840	\$ 34,878	\$ 26,962	\$ 22,006

Administration expenses include \$7.7 million (2002 – \$6.8 million) of amortization of equipment and leasehold improvements.

9. Borrowings

The corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are direct obligations of the corporation and thus constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Short-term debt

Short-term debt consists of promissory notes payable within one year totalling \$1,512.4 million (2002 – \$2,051.0 million). The effective interest rate on these notes ranges from 1.15% to 3.46% (2002 – 1.72% to 4.45%) with an average yield to maturity of 2.95% (2002 – 2.25%). Amounts denominated in foreign currencies have been translated into Canadian dollars at rates prevailing at the balance sheet date.

On December 3, 2002, the corporation renewed a revolving credit facility providing access to funds in the amount of \$50 million. This facility has a one-year term and indebtedness under this agreement is unsecured. As at March 31, 2003, there were no draws on this facility.

The corporation also has a line of credit facility providing access to funds in the amount of \$10 million. Indebtedness under this agreement is unsecured and this credit facility does not expire. As at March 31, 2003, there were no draws on this line of credit.

Long-term debt

(thousands of dollars)

	Stated interest rate (%)	2003	2002
Debt from capital markets, secured by notes payable in:			
Canadian dollars	0.00 – 9.00	\$ 6,007,523	\$ 4,901,371
United States dollars (\$92,000)	4.00 – 8.49	135,311	–
Japanese yen (¥25.7 billion)	0.95 – 2.50	319,245	14,423
Debt from capital markets, secured by notes payable in Canadian dollars with interest payments linked to:			
The Euro Top 100 Index		32,388	32,388
		\$ 6,494,467	\$ 4,948,182

Debt with index-linked interest payments do not provide periodic interest payments but, upon maturity, provide the purchaser with a single payment based on the change in the underlying equity or bond index. The corporation has entered into swap agreements which offset all index-linked interest payments in exchange for periodic payments calculated at an agreed upon interest rate.

Debt payments denominated in foreign currencies have been fully swapped into Canadian dollars. Changes in market interest rates have a direct impact on the contractually determined cash flows of floating-rate debt instruments and on the fair value of fixed-rate debt instruments.

The following table summarizes the carrying value, including accrued interest and unamortized premium and discount, of the corporation's debt instruments by the earlier of their contractual re-pricing dates or their maturity dates. Instruments repayable by amortizing payments of principal and interest are shown as maturing over the term of the contract.

The calculated yield for long-term debt in foreign currencies is disclosed net of currency and interest rate swaps.

(thousands of dollars)

Remaining term to repricing or maturity date	2003		2002	
	Carrying Value	Average Yield	Carrying Value	Average Yield
Within 1 year	\$ 1,411,074	3.49%	\$ 1,522,684	4.71%
1 to 5 years	3,254,493	4.60%	3,196,421	4.65%
over 5 years	1,897,950	4.00%	316,822	4.43%
	\$ 6,563,517	4.05%	\$ 5,035,927	4.66%

Long-term debt maturities are as follows:

(thousands of dollars)

	2003	2002
Amounts due:		
Within 1 year	\$ 1,396,229	\$ 1,496,153
From 1 - 2 years	1,134,260	1,439,238
From 2 - 3 years	1,075,576	809,561
From 3 - 4 years	495,131	688,240
From 4 - 5 years	515,288	203,688
Over 5 years	1,877,983	311,302
	\$ 6,494,467	\$ 4,948,182

Included in long-term debt is \$1,369.9 million (2002 - \$760.5 million) of instruments extendable beyond their original due dates and \$632.9 million (2002 - \$204.7 million) of callable debt. The redemption of these instruments is controllable by the corporation.

10. Administration expenses

(thousands of dollars)

	2003	2002
Personnel	\$ 75,164	\$ 66,786
Facilities and equipment	18,585	16,663
Professional and other	15,103	10,459
Travel and training	10,432	7,708
	\$ 119,284	\$ 101,616

11. Income taxes

In its December 10, 2001, Budget, the Government of Canada indicated its intention to grant the corporation tax-exempt status for tax years beginning after December 10, 2001. It is expected that the regulatory amendments affecting this change will be in effect in the near future. As a consequence, effective April 1, 2002, deductible temporary differences are no longer available to the corporation as deductions against future tax liabilities and loss carry-forwards that were previously recognized in the financial statements are no longer available. The future income tax asset no longer has value to the corporation and was removed through retained earnings at March 31, 2002, in the amount of \$127.1 million.

12. Employee future benefits

The following table presents information related to the corporation's defined benefit plans including amounts recorded on the balance sheet and the components of net periodic benefit cost. The measurement date for the defined benefit plans is December 31, 2002.

(thousands of dollars)

	2003 Pension benefits	2002 Pension benefits	2003 Other benefits	2002 Other benefits
Change in accrued benefit obligation				
Balance, beginning of year	\$ 102,722	\$ 2,993	\$ 15,655	\$ 12,956
Current service cost	5,199	4,873	966	818
Interest cost	7,813	3,019	1,119	966
Employee contributions	2,103	1,690	—	—
Benefits paid	(2,311)	(336)	(577)	(488)
Net transfer in*	2,300	102,551	—	—
Actuarial (gain)/loss	9,183	(12,068)	713	1,403
Balance, end of year	\$ 127,009	\$ 102,722	\$ 17,876	\$ 15,655
Change in fair value of plan assets				
Balance, beginning of year	\$ 113,192	\$ 2,898	\$ —	\$ —
Actual return on plan assets	(193)	2,353	—	—
Employer contributions	5,903	4,036	—	—
Employee contributions	2,103	1,690	—	—
Benefits paid	(2,311)	(336)	—	—
Net transfer in*	2,300	102,551	—	—
Balance, end of year	\$ 120,994	\$ 113,192	\$ —	\$ —
Funded status				
Surplus (deficiency)	\$ (6,015)	\$ 10,470	\$ (17,876)	\$ (15,655)
Employer contributions after December 31	769	698	—	—
Unamortized net actuarial (gain)/loss	6,979	(11,157)	2,644	1,682
Accrued benefit asset (liability)	\$ 1,733	\$ 11	\$ (15,232)	\$ (13,973)
Net pension benefit expense				
Current service cost	\$ 5,199	\$ 4,873	\$ 966	\$ 818
Interest cost	7,813	3,019	1,119	966
Amortization of actuarial (gain)	—	—	(248)	—
Expected return on plan assets	(9,364)	(3,077)	—	—
Net pension benefit expense	\$ 3,648	\$ 4,815	\$ 1,837	\$ 1,784

*As of July 1, 2000, the corporation began administering its own pension plans for its employees. Previously, employees participated in the *Public Service Superannuation Act* (PSSA) pension plan administered by the Government of Canada. On November 4, 2000, the corporation signed a Pension Transfer Agreement with the Government of Canada which provided employees with a one-time option of transferring their past service from the PSSA to the new plan. With respect to members who elected to transfer past service, a transfer of assets from the Public Service Superannuation Fund is currently in progress. Although the transfer is not complete, the remaining amount of the transfer has been recognized on an estimated basis at March 31, 2003.

The accrued benefit asset and liability are included in other assets and other liabilities and deferred fees respectively on the balance sheet.

The weighted-average assumptions at the measurement date used in the calculation of the corporation's benefit obligation are shown in the following table:

	2003		
	Pension benefits	Post-retirement benefits	Post-employment benefits
Discount rate at the beginning of the period	7.00%	7.00%	6.25%
Discount rate at the end of the period	7.00%	7.00%	5.75%
Expected long-term rate of return on plan assets	7.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	4.00%

	2002		
	Pension benefits	Post-retirement benefits	Post-employment benefits
Discount rate at the beginning of the period	7.25%	7.40%	6.30%
Discount rate at the end of the period	7.00%	7.00%	6.25%
Expected long-term rate of return on plan assets	8.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	4.00%

For measurement purposes, a 9.00% (2002 – 9.00%) increase in the per capita cost of covered hospital costs was assumed. This increase for covered hospital costs was assumed to decrease gradually to nil ten years from the current year (2002 – to nil ten years from the current year) and remain at that level thereafter. For drug costs, a 11.00% (2002 – 10.00%) increase in the per capita cost was assumed to decrease gradually to 5.00% ten years from the current year (2002 – to 5.00% ten years from the current year) and remain at that level thereafter. For other health care costs, a 4.00% (2002 – 3.00%) per annum increase in the per capital costs was assumed.

The cost of the defined contribution plan is recorded based on the contributions in the current year and is included in administration expense. In the year ended March 31, 2003, the expense was \$1.6 million (2002 – \$1.3 million).

13. Derivative financial instruments

The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations. The following are more detailed descriptions of some of the more prominent derivative instruments utilized by the corporation to mitigate risk:

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed and/or floating rates of interest. Notional amounts upon which interest payments/receipts are based are not exchanged. The exchange of payments is recorded as an adjustment to interest income or expense on the related loan or debt instrument. The related amount payable to or receivable from the counterparty to the agreement is included as an adjustment to accrued interest.

Equity index-linked swaps are transactions used to eliminate exposure to movements in a bond or equity index on a debt issue undertaken by the corporation. Two counterparties agree to exchange payments, one of which represents the percentage change in an agreed upon bond or equity and the other a short-term interest rate index. The principal amount may or may not be exchanged at both inception and maturity.

Currency swaps are transactions in which two parties exchange notional amounts at inception and maturity, as well as interest flows, on the exchanged amounts on predetermined dates for a specified period of time using agreed upon fixed or floating rates of interest.

Bond forward agreements are transactions to either buy or sell financial instruments at specified prices and dates in the future.

Interest rate options are transactions that grant the buyer the right, but not obligation, to buy or sell a specific amount of currency, commodity or financial instrument at an agreed upon price.

Notional principal amounts outstanding at March 31, 2003, for the various derivative financial instruments were:

(thousands of dollars)

Remaining term to maturity		Within 1 year	1 to 5 years	Over 5 years	2003	2002
Interest rate contracts:						
Swap contracts						
<i>Receive</i>	<i>Pay</i>					
Floating	Fixed	\$ 3,950,000	\$ 1,198,320	\$ 1,752,400	\$ 6,900,720	\$ 546,000
Fixed	Floating	86,000	260,000	-	346,000	1,435,167
Fixed	Fixed	-	-	-	-	20,000
Floating	Floating	-	20,257	-	20,257	857
Equity index-linked	Floating	16,688	15,700	-	32,388	32,388
Bond forward		-	-	-	-	25,000
Option		-	-	-	-	5,000
		4,052,688	1,494,277	1,752,400	7,299,365	2,064,412
Foreign exchange contracts:						
Cross-currency swaps						
<i>Receive</i>	<i>Pay</i>					
CDN fixed	USD fixed	1,188	-	-	1,183	124,820
Total		\$ 4,053,876	\$ 1,494,277	\$ 1,752,400	\$ 7,300,553	\$ 2,189,232

The counterparty credit risk associated with derivative financial instruments is the risk of loss due to the failure of a counterparty to discharge their obligations in a derivative financial instrument agreement. The corporation manages its exposure to credit risk and complies with the guidelines issued by the Minister of Finance by dealing exclusively with financial institutions whose credit rating is of high quality. Credit risk, or counterparty risk is managed via the corporation's board approved Counterparty Risk Guidelines, which specifies the maximum exposure which the corporation will accept for each level of credit rating.

Additionally, International Swaps and Derivatives Association Inc. (ISDA) agreements have downgrade and collateral provisions to reduce counterparty credit risk. The corporation will only transact in derivatives with counterparties with whom an ISDA agreement is in place. As an addition to the ISDA agreements, Credit Support Annexes will be executed with all derivative counterparties. These annexes provide additional details regarding the administration and posting of collateral.

These same derivatives can be measured by fair value and replacement costs as follows:

(thousands of dollars)

	2003		2002	
	Net Fair Value	Replacement Cost	Net Fair Value	Replacement Cost
Interest rate contracts	\$ 2,559	\$ 47,039	\$ (27,042)	\$ 11,349
Foreign currency contracts	(58)	—	4,992	4,992
Total	\$ 2,501	\$ 47,039	\$ (22,050)	\$ 16,341

Fair values for derivative financial instruments are estimated using present value techniques.

Replacement cost measures the maximum exposure to counterparty risk. The corporation does not anticipate any significant non-performance by counterparties. The largest cumulative notional amount contracted with any institution as at March 31, 2003, was \$2,591.7 million (2002 – \$742.7 million) and the largest replacement cost of contracts with any institution as at March 31, 2003, was \$16.5 million (2002 – \$7.0 million).

Amounts due from counterparties included in accounts receivable at March 31, 2003, were \$21.1 million (2002 – \$21.0 million). Amounts due to counterparties included in accounts payable and accrued liabilities at March 31, 2003, were \$3.3 million (2002 – \$4.7 million).

14. Fair values

The following table summarizes the estimated fair value of the corporation's financial instruments at the balance sheet date.

(thousands of dollars)

	2003		2002	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Cash and cash equivalents	\$ 146,683	\$ 146,683	\$ 190,022	\$ 190,022
Temporary investments	256,782	256,782	159,538	159,538
Accounts receivable	83,833	83,833	83,833	83,833
Loans receivable	8,467,106	8,616,053	7,418,455	7,523,031
Venture capital investments	2,000	2,000	-	-
Other assets	4,325	4,325	11	11
Liabilities				
Accounts payable and accrued liabilities	\$ 25,554	\$ 25,554	\$ 21,950	\$ 21,950
Accrued interest on borrowings	75,175	75,175	96,423	96,423
Short-term debt	1,512,419	1,512,419	2,050,957	2,050,957
Long-term debt	6,494,467	6,566,439	4,948,182	4,967,920

Short-term financial instruments are valued at their balance sheet carrying values, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This valuation methodology applies to cash and cash equivalents, temporary investments, accounts receivable, other assets, accounts payable and accrued liabilities, accrued interest on borrowings, and short-term debt.

Quoted market values are not available for a significant number of the corporation's financial instruments. As a result, the fair values disclosed for some instruments are estimated using present value measurement techniques and may not be indicative of the current replacement cost of the instrument(s). The following methods of calculation and assumptions are used:

- Venture capital investments in shares that are traded on an exchange are valued based on the closing share price as of the date of these financial statements. The investment in debt is valued at book value, which approximates fair value.
- The estimated fair value for the performing fixed rate loans receivable is calculated by discounting the expected future cash flows (after adjustment for amounts which may be collected in advance of the contractual due dates) at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable rate loans receivable is assumed to equal carrying value. The general component of the allowance for credit losses is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to their net realizable value which is calculated by subtracting the specific component of the allowance for credit losses from the book value of the impaired loans receivable.
- Estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

15. Commitments and contingent liabilities

Long-term commitments for leases

Future minimum payments by fiscal year on operating leases for premises and automobiles with initial non-cancellable lease terms in excess of one year are due as follows:

(thousands of dollars)

Within 1 year	\$	6,299
From 1 – 2 years		5,218
From 2 – 3 years		4,445
From 3 – 4 years		3,741
From 4 – 5 years		2,763
Over 5 years		13,111
	\$	35,577

Other commitments and contingent liabilities

In the normal course of its business, the corporation enters into various commitments and contracts. As of March 31, 2003, the corporation has issued guarantees and letters of credit on behalf of its customers which in total do not exceed \$17.0 million (2002 – \$16.7 million). In the event of a call upon the guarantees disclosed above, the corporation has recourse against its customers.

As at March 31, 2003, loans to farmers and agribusiness approved but undisbursed amounted to \$275.0 million (2002 – \$276.6 million). These loans were approved at an average interest rate of 6.23% (2002 – 5.15%) and do not form part of the loans receivable balance until disbursed. It is expected that the majority of these loans will be disbursed by May 30, 2003.

16. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. Transactions with these entities were entered into in the normal course of business.

17. Segmented information

The corporation is organized and managed as a single business segment being agriculture lending. The operation is viewed as a single segment for purposes of resource allocation and assessing performance. All of the corporation's sales are within Canada. No one customer comprises more than 10% of the corporation's receivables or interest revenues.

18. Comparative figures

Certain 2002 comparative figures have been restated to conform with the current year's presentation.



**Federal
Bridge
Corporation
Limited, The**



MANAGEMENT REPORT

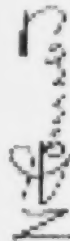
The accompanying consolidated financial statements of The Federal Bridge Corporation Limited and all information in this annual report are the responsibility of management and were approved by its Board of Directors.

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates, which are based on management's best judgments. Information contained elsewhere in the annual report is consistent, where applicable, with that contained in the financial statements.

To meet management's responsibility and to assure the integrity and reliability of financial reporting, the Corporation maintains a system of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded, and that transactions and events are properly recorded.

The system of control is supplemented by an internal audit, which consists of periodic reviews of different aspects of the Corporation's operations. The external auditor has full and free access to the managers who have the responsibility for maintaining an adequate control system and assuring the quality of financial reporting.

The Auditor General of Canada is responsible for auditing the financial statements and for issuing her report thereon.



Michel Fournier
President and Chief Executive Officer

Ottawa, Canada
May 30, 2003





Auditor General of Canada
Comptroller General of Canada

AUDITOR'S REPORT

To the Minister Transport

I have audited the consolidated balance sheet of The Federal Bridge Corporation Limited as at March 31, 2003 and the consolidated statements of operations and retained earnings, contributed capital and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted audit standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and its wholly owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, the *Canada Marine Act* and regulations, and the articles and by-laws of the Corporation and its wholly owned subsidiaries.

Sylvain Ricard, CA
Principal

for the Auditor General of Canada

Ottawa, Canada
May 30, 2003

CONSOLIDATED BALANCE SHEET

As at March 31

In dollars	2003	2002
* ASSETS		
Current		
Cash and short-term deposits (Note 3)	20,870,585	19,591,676
Accounts receivable	1,341,564	1,957,841
Accrued interest receivable	25,969	9,129
Prepaid expenses	562,665	530,423
Due from Canada	6,612,473	13,735,416
	29,413,256	35,824,485
Long-term		
Long-term investments (Note 4)	321,995	317,046
Capital assets (Note 5)	164,857,187	107,325,028
	194,592,438	143,466,559
* LIABILITIES		
Current		
Accounts payable	9,102,975	17,641,899
Deferred revenue	362,240	368,418
	9,465,215	18,010,317
Holdback (Note 6)	2,795,966	1,190,862
Provision for employee future benefits	897,010	993,900
Deferred revenue	-	393,000
Deferred capital funding (Note 7)	126,749,358	72,146,489
Non-controlling interest	569,101	472,171
	131,011,435	75,196,422
	140,476,650	93,206,739
Commitments and contingencies (Notes 13 and 14)		
* SHAREHOLDER'S EQUITY		
Capital stock		
Authorized - Unlimited number of shares, without par value	1	1
Issued and fully paid - 1 share	53,664,378	53,443,116
	451,409	(3,183,297)
Contributed capital		
Retained earnings (accumulated deficit)	54,115,788	50,259,820
	194,592,438	143,466,559

Approved by the Board of Directors:

W. G. ...

President and Chief Executive Officer

W. G. ...

Director

*The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Year ended March 31

<i>In dollars</i>	2003	2002
• REVENUES		
Thousand Islands Bridge operating revenue (Note 8)	2,014,257	1,853,803
Leases and licenses	5,069,659	4,965,619
Tolls	5,543,137	4,491,072
Interest	540,912	691,096
Other	51,333	89,451
	13,219,298	12,091,041
• EXPENSES		
Maintenance	17,147,826	26,237,577
Operation	4,640,829	4,613,778
Administration	7,894,369	7,346,952
Amortization	4,121,794	3,658,254
	33,804,818	41,856,561
Loss before government funding	(20,585,520)	(29,765,520)
Parliamentary appropriation for operating expenses	23,345,410	26,726,437
Amortization of deferred capital funding (Note 7)	971,746	214,349
Non-controlling interest	(96,930)	(79,711)
NET EARNINGS (LOSS)	3,634,706	(2,904,445)
Accumulated deficit, beginning of year	(3,183,297)	(278,852)
Retained earnings (accumulated deficit), end of year	451,409	(3,183,297)

*The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CONTRIBUTED CAPITAL

Year ended March 31

in dollars	2003	2002
Balance, beginning of year	53,443,116	53,443,116
Transfer of lands from Minister of Transport (Note 10)	221,262	-
Balance, end of year	53,664,378	53,443,116

*The notes are an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31

	2003	2002
<i>In dollars</i>		
• CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	3,634,706	(2,904,445)
Non-cash items		
Amortization of capital assets	4,121,794	3,658,254
Loss on disposal of capital assets	190,659	-
Amortization of deferred capital funding	(971,746)	(214,349)
Increase (decrease) in provision for employee future benefits	(96,890)	34,314
Amortization of deferred revenue	(399,178)	(2,284,426)
Non-controlling interest	96,930	79,711
Changes in holdback	1,605,104	1,190,862
Changes in working capital items (Note 11)	(848,786)	3,018,938
Cash flows from operating activities	7,332,593	2,578,859
• CASH FLOWS FROM INVESTMENT ACTIVITIES		
Decrease (increase) in advance to co-venturer	(4,949)	10,564
Long-term investments	-	4,147,808
Acquisition of capital assets	(61,646,341)	(58,347,291)
Disposal of capital assets	22,991	-
Cash flows used in investment activities	(61,628,299)	(64,188,919)
• CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in deferred capital funding and cash flows from financing	55,574,615	66,133,563
• NET INCREASE FOR THE YEAR		
Cash and term deposits, beginning of year	1,278,909	4,523,503
Cash and term deposits, end of year	19,591,676	15,068,173
	20,870,585	19,591,676

*The notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

1. AUTHORITY AND ACTIVITIES

The Federal Bridge Corporation Limited, incorporated on September 2, 1998 under the *Canada Business Corporations Act*, is a Crown corporation under Schedule III Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

In accordance with a directive issued by the Minister of Transport under the *Canada Marine Act*, the St. Lawrence Seaway Authority transferred its assets on October 1, 1998. Specifically, the responsibility for The Jacques Cartier and Champlain Bridges Incorporated, for The Seaway International Bridge Corporation, Ltd., and for the operations of the Thousand Islands Bridge were transferred to The Federal Bridge Corporation Limited. The responsibility for the Melocheville Tunnel and the Mercier Bridge were transferred to the subsidiary. The Jacques Cartier and Champlain Bridges Incorporated.

On October 17, 2000, the Federal Bridge Corporation Limited acquired 91.33% of the outstanding voting and participating shares of The St. Mary's River Bridge Company from the Province of Ontario for \$1,370.

The Corporation's primary activities involve the management and operation of bridges, installations and other assets. Moreover, the Corporation may acquire land and build structures or other assets and acquire shares or interests in any other bridge management corporation.

The subsidiary, The Jacques Cartier and Champlain Bridges Incorporated, depends on the Federal Government for its funding. The Federal Bridge Corporation Limited and its subsidiary, The St. Mary's River Bridge Company, and its joint venture, The Seaway International Bridge Corporation, Ltd., are self financed by using their own operating income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The consolidated financial statements include the accounts of The Federal Bridge Corporation Limited, its wholly-owned subsidiary, The Jacques Cartier and Champlain Bridges Incorporated, the 91.33% owned subsidiary, The St. Mary's River Bridge Company and its proportionate share (50%) of its interest in its joint venture, The Seaway International Bridge Corporation Ltd. The consolidated operations for the 2003 year include the results of all companies for the period from April 1, 2002 to March 31, 2003 (from April 1, 2001 to March 31, 2002 in 2002).

b) Parliamentary appropriations

The parliamentary appropriation, which the subsidiary The Jacques Cartier and Champlain Bridges Incorporated uses to offset the excess of its operating expenses over its operating revenues, is shown on the statement of operations and retained earnings. The amount of the parliamentary appropriation is based primarily on the operating cash flow requirements of the subsidiary.

The portion of the parliamentary appropriation used by the subsidiary to finance the acquisition of amortizable capital assets is accounted for as deferred capital funding on the balance sheet and amortized on the same basis as the related capital assets. Any portion used to finance the acquisition of non-amortizable capital assets is recorded as contributed capital.

Parliamentary appropriations that the subsidiary is entitled to but which are not received by year-end are shown as an amount due from Canada.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

c) Capital assets and amortization
Capital assets are recorded at cost. Replacements and major improvements which extend the useful service lives of existing assets are capitalized. Repairs and maintenance are charged to operations as incurred.

Capital assets acquired from Government of Canada created departments, agencies and Crown corporations are accounted for at the transferor's carrying amount with the consideration shown in contributed capital.

Amortization is recorded using the straight-line method based on the estimated useful service lives of the assets at the following rates:

• Bridges	2% - 5%
• Remedial works	5% - 10%
• Deferred major repairs	10%
• Vehicles and equipment	3% - 33%
• Buildings	2% - 20%

Amounts included in projects in progress are transferred to the appropriate capital asset classification upon completion and are then amortized according to the Corporation's policy.

d) Deferred revenue
Deferred revenue is comprised of leases, licenses and the sale of toll tickets, for which services have not been rendered, are deferred and accounted for as services are provided.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

e) Employee future benefits

Employees are entitled to specified benefits on termination as provided for under conditions of employment, through a severance benefit plan. The Corporation recognizes the cost of future severance benefits over the periods in which the employees render services to the entity and liability for these benefits is recorded in the accounts as the benefits accrue to employees.

f) Pension plan

All employees of the subsidiary The Jacques Cartier and Champlain Bridges Incorporated and the joint venture, The Seaway International Bridge Corporation Ltd participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions, and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the subsidiary and the joint venture and are charged to operations on a current basis. The subsidiary and the joint venture are not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Employees of the Federal Bridge Corporation Limited are covered by a defined contribution private pension plan and the cost of this plan is shared by the employees and the Corporation.

Contributions in respect of current services are expensed when paid and represent the total pension obligation of the Corporation. The terms of payment of past service contributions are set by the application purchase conditions, generally over the number of years of services remaining prior to retirement.

g) Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Employee future benefits, accrued liabilities for major maintenance repairs and estimates pertaining to claims received from suppliers are the most significant items where estimates are used. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

3. CASH AND TERM DEPOSITS

The Corporation invests in the short-term money market. The short-term investments are mainly composed of Canadian Treasury bills, guaranteed debentures and term deposits. The overall portfolio yield as at March 31, 2003 was 2.97% (2002 - 2.54%). On average, the term to maturity is 153 days.

The fair value of the short-term deposits approximates the book value due to their impending maturity.

4. ADVANCE TO CO-VENTURER

This account represents the excess of the contribution required by The Federal Bridge Corporation Limited in its joint venture.

The advance bears interest monthly at the average one-year Treasury bill rate and has no repayment terms. As at March 31, 2003, its carrying amount approximated its fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

5. CAPITAL ASSETS

in dollars	cost	accumulated amortization	net	net
		2003		2002
• Land	4,562,206	-	4,562,206	4,340,944
• Bridges	273,010,121	120,280,663	152,729,458	23,756,294
• Vehicles and equipment	7,410,493	3,654,749	3,755,744	3,791,396
• Buildings	5,496,830	2,521,446	2,975,384	2,900,547
• Deferred major repairs	1,109,142	920,740	188,402	144,824
• Remedial works	48,917	29,696	19,221	20,473
• Projects in progress	626,772	-	626,772	72,370,550
	292,264,481	127,407,294	164,857,187	107,325,028

The cost of the Bonaventure Autoroute, the initial cost of the Jacques Cartier Bridge and the initial cost of the Canadian portion of the Sault Ste. Marie Bridge are fully amortized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

6. HOLDBACK

The Corporation temporarily retains an amount on the total of the sums due to a contractor to guarantee the good execution in work computed. The guarantee period is five years falling due in October 2007. The contractor has rights to simple interest of 2% and 2.73% on the amount retained, payable annually as from December 2003. The Corporation will pay the holdback (from which will be deducted any amount the contractor might owe to the Corporation pursuant to the contractual warranty clauses) after the expiry of the period of guarantee.

7. DEFERRED CAPITAL FUNDING

<i>in dollars</i>	2003	2002
Balance, beginning of year	72,146,489	6,227,275
Parliamentary appropriation to finance the acquisition of amortizable capital assets	55,574,615	66,133,563
Amortization	(971,746)	(214,349)
Balance, end of year	126,749,358	72,146,489

8. THOUSAND ISLANDS BRIDGE OPERATING REVENUE

This represents the Corporation's share of the net income from operations of the Canadian portion of the Thousand Islands Bridge in accordance with a management agreement between The Federal Bridge Corporation Limited and the Thousand Islands Bridge Authority.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

9. PENSION PLAN

The pension expense for all plans for the year is \$357,484 (2002 - \$264,902).

10. TRANSFER OF LANDS FROM MINISTER OF TRANSPORT

Four parcels of land located on the Kahnawake Reserve and three parcels of land located in the town of Melocheville were transferred gratuitously from the Minister of Transport to the subsidiary, The Jacques Cartier and Champlain Bridges Incorporated on June 27, 2002. As of that date, the estimated net book value of these lands was \$221,262.

11. INFORMATION INCLUDED IN THE STATEMENT OF CASH FLOWS

The changes in working capital items are detailed as follows:

in dollars	2003	2002
Accounts receivable	616,277	(279,004)
Accrued interest receivable	(16,840)	200,004
Prepaid expenses	(32,242)	331,920
Due from Canada	7,122,943	(5,073,224)
Accounts payable	(8,538,924)	7,839,242
	(848,786)	3,018,938

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

12. RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed elsewhere in these financial statements, the Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

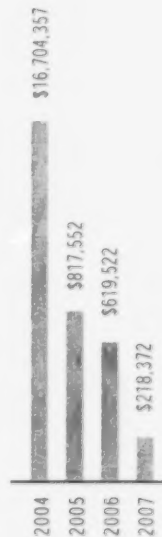
13. COMMITMENTS

a) Operation

The minimum amount which will be paid in future years under an agreement for police services ending on June 30, 2005, is \$3.1 million on an annual basis. This agreement is renewable at term unless notice to the contrary from one party.

b) Suppliers

The Corporation has commitments principally for maintenance contracts, supply contracts, professional services and rental agreements for an amount of \$18,359,803 until 2007. Minimum payments over the next years are as follows:



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at March 31

14. CONTINGENCIES

a) In the normal course of its activities, the Corporation is the claimant or defendant or is involved in certain pending claims or lawsuits. It is the opinion of management that these claims or lawsuits will not result in any material liabilities to the Corporation. No provision has been taken in this regard.

b) It may be necessary to decontaminate some of the Corporation's properties. To date, the Corporation has been unable to determine the related costs as it has not assessed the extent of contamination on all of its properties. The costs for environmental assessments and decontamination work are accounted for in the year during which the work is performed.

15. MAJOR REHABILITATION WORK

In its endeavour to fulfill its mission, the Corporation must undertake major rehabilitation works on the roadway deck of the Jacques Cartier Bridge. On October 12, 2000, the Corporation awarded a design-construction contract for the deck replacement on the bridge. Construction on the bridge has been completed on October 15, 2002. The total cost of the project, including direct and indirect costs, is \$128 million, of which \$127 million was capitalized as at March 31, 2003.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash, term deposits, accounts receivable, amount due from Canada and accounts payable approximate their fair value given their short-term maturity. There is no concentration of accounts receivable and accordingly, the credit risk is low.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.



**Freshwater
Fish
Marketing
Corporation**



April 30, 2003

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Freshwater Fish Marketing Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for doubtful accounts receivable and the write-down of inventory, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit studies, which consists of periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors meets with management and the external auditors on a regular basis. External auditors have full and free access to the Board.

The Corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing her report thereon.



Robert F. Hand
President and Chief Executive Officer
Freshwater Fish Marketing Corporation



Gabriella Bradics
Chief Financial Officer
Freshwater Fish Marketing Corporation

Winnipeg, Canada
July 11, 2003

April 30, 2003

FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

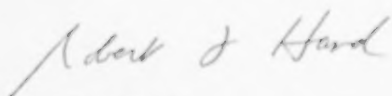
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Robert F. Hand
President and Chief Executive Officer
Freshwater Fish Marketing Corporation



Gabriella Bradics
Chief Financial Officer
Freshwater Fish Marketing Corporation

Winnipeg, Canada
July 11, 2003

AUDITOR'S REPORT



Auditor General of Canada
Verificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Fisheries and Oceans

I have audited the balance sheet of Freshwater Fish Marketing Corporation as at April 30, 2003, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at April 30, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Freshwater Fish Marketing Act* and the by-laws of the Corporation.

John D. McCullough, CA
Principal
For the Auditor General of Canada

Winnipeg, Canada
July 11, 2003

BALANCE SHEET

As at April 30, 2003 (in thousands of dollars)

2003

2002

ASSETS

Current

Cash	\$ 133	\$ 143
Accounts receivable	7,149	7,678
Inventories (Note 3)	14,595	11,704
Prepaid expenses	61	277

21,938 19,802

Capital assets (Note 4)

6,876 6,689

\$ 28,814 \$ 26,491

LIABILITIES

Current

Accounts payable and accrued liabilities	\$ 4,478	\$ 3,416
Provision for final payments to fishers	6,183	7,403
Loans payable (Note 5)	14,000	11,519

24,661 22,338

RETAINED EARNINGS

Retained earnings

4,153 4,153

\$ 28,814 \$ 26,491

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Jim Bear

Chairman

Robert T. Klingensen

Director

FINANCIAL STATEMENTS

AUDITOR'S REPORT



Auditor General of Canada
Verificatrice générale du Canada

AUDITOR'S REPORT

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Winnipeg, Canada
July 11, 2003

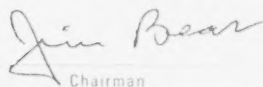
BALANCE SHEET

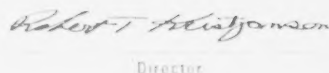
As at April 30, 2003 (in thousands of dollars)

	2003	2002
ASSETS		
Current		
Cash	\$ 133	\$ 143
Accounts receivable	7,149	7,678
Inventories (Note 3)	14,595	11,704
Prepaid expenses	61	277
	21,938	19,802
Capital assets (Note 4)	6,876	6,689
	\$ 28,814	\$ 26,491
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 4,478	\$ 3,416
Provision for final payments to fishers	6,183	7,403
Loans payable (Note 5)	14,000	11,519
	24,661	22,338
RETAINED EARNINGS		
Retained earnings	4,153	4,153
	\$ 28,814	\$ 26,491

The accompanying notes are an integral part of the financial statements.

Approved by the Board:


Chairman


Director

FINANCIAL STATEMENT

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the Year Ended April 30, 2003 (in thousands of dollars)	2003	2002
OPERATIONS		
Sales (Note 6)		
Export (Note 7)	\$ 52,539	\$ 54,113
Domestic	13,147	14,346
	<u>65,686</u>	<u>68,459</u>
Cost of sales		
Opening inventory of finished fish products	10,862	12,209
Add fish purchases and processing expenses:		
Initial payments to fishers	37,710	35,941
Salaries, wages and benefits (Note 8)	8,519	7,622
Packing allowances and agency operating costs	5,565	5,131
Packaging and storage	3,141	2,978
Utilities and property taxes	1,273	1,432
Amortization of production assets	824	1,089
Repairs and maintenance	765	707
Other	391	425
	<u>69,050</u>	<u>67,534</u>
Less ending inventory of finished fish products (Note 3)	<u>(13,682)</u>	<u>(10,862)</u>
	<u>55,368</u>	<u>56,672</u>
Gross profit on operations	<u>10,318</u>	<u>11,787</u>
Marketing and administrative expenses		
Salaries and benefits (Note 8)	2,067	1,862
Interest (Note 7)	153	934
Data processing, office and professional services	673	719
Amortization of administration assets	229	277
Advertising and promotion	272	300
Meeting fees and expenses	143	147
Other	598	145
	<u>4,135</u>	<u>4,384</u>
Income before provision for final payments to fishers	<u>6,183</u>	<u>7,403</u>
Provision for final payments to fishers	<u>6,183</u>	<u>7,403</u>
Net income for the year (Note 9)	<u>-</u>	<u>-</u>
Retained earnings at beginning of the year	4,153	4,153
Retained earnings at end of the year	<u>\$ 4,153</u>	<u>\$ 4,153</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended April 30, 2003 (in thousands of dollars)	2003	2002
CASH PROVIDED BY (used for)		
Operating activities		
Net income for the year	\$ -	\$ -
Add (deduct) items not affecting cash		
Amortization	1,368	1,366
Loss on sale of capital assets	49	20
Net changes in non-cash working capital balances relating to operations	(1,084)	(108)
(Decrease) increase in provision for final payments to fishers	(1,220)	628
Cash (used for) provided by operations	(887)	1,906
Investing activities		
Additions to capital assets	(1,607)	(1,881)
Proceeds on sale of capital assets	3	-
Cash used for investing activities	(1,604)	(1,881)
Financing activities		
Increase (decrease) in loans payable	2,481	(627)
Cash provided by (used for) provided by financing activities	2,481	(627)
Decrease in cash during the year	(10)	(602)
Cash at beginning of year	143	745
Cash at end of year	\$ 133	\$ 143

The accompanying notes are an integral part of the financial statements.

FINANCIAL STATEMENTS

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the Year Ended April 30, 2003 (in thousands of dollars)

OPERATIONS

Sales (Note 6)

Export (Note 7)
Domestic

2003

2002

\$ 52,539
13,147
65,686

\$ 54,113
14,346
68,459

Cost of sales

Opening inventory of finished fish products
Add fish purchases and processing expenses:
 Initial payments to fishers
 Salaries, wages and benefits (Note 8)
 Packing allowances and agency operating costs
 Packaging and storage
 Utilities and property taxes
 Amortization of production assets
 Repairs and maintenance
 Other

10,862
37,710
8,519
5,565
3,141
1,273
824
765
391

12,209
35,941
7,622
5,131
2,978
1,432
1,089
707
425

69,050
(13,682)
55,368

67,534
(10,862)
56,672

Less ending inventory of finished fish products (Note 3)

Gross profit on operations

10,318

11,787

Marketing and administrative expenses

Salaries and benefits (Note 8)
Interest (Note 7)
Data processing, office and professional services
Amortization of administration assets
Advertising and promotion
Meeting fees and expenses
Other

2,067
153
673
229
272
143
598
4,135

1,862
934
719
277
300
147
145
4,384

Income before provision for final payments to fishers

6,183

7,403

Provision for final payments to fishers

6,183

7,403

Net income for the year (Note 9)

-

-

Retained earnings at beginning of the year

4,153

4,153

Retained earnings at end of the year

\$ 4,153

\$ 4,153

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended April 30, 2003 (in thousands of dollars)	2003	2002
CASH PROVIDED BY (used for)		
Operating activities		
Net income for the year	\$ -	\$ -
Add (deduct) items not affecting cash		
Amortization	1,368	1,366
Loss on sale of capital assets	49	20
Net changes in non-cash working capital balances relating to operations	(1,084)	(108)
(Decrease) increase in provision for final payments to fishers	(1,220)	628
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Investing activities		
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Proceeds on sale of capital assets	3	-
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Financing activities		
Increase (decrease) in loans payable	2,481	(627)
Cash provided by (used for) provided by financing activities	2,481	(627)
Decrease in cash during the year	(10)	(602)
Cash at beginning of year	143	745
Cash at end of year	\$ 133	\$ 143

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended April 30, 2003

1. AUTHORITY, OPERATIONS AND OBJECTIVES

The Corporation was established in 1969 by the *Freshwater Fish Marketing Act* for the purpose of marketing and trading in fish, fish products, and fish by-products in and outside of Canada. The Corporation is required to purchase all fish legally caught in the freshwater region, which encompasses the provinces of Alberta, Saskatchewan, Manitoba, parts of northwestern Ontario, and the Northwest Territories. Participation of these provinces and territory was established by agreement with the Government of Canada.

The Corporation is an agent Crown corporation named in Part I of Schedule III of the *Financial Administration Act*. The Corporation is required to conduct its operations on a self-sustaining basis without appropriations from Parliament and the total borrowings of the Corporation may not exceed \$24 million.

The Corporation has the exclusive right to trade and market the products of the commercial fishery on an interprovincial and export basis, and it exercises that right with the objectives of marketing fish in an orderly manner, maximizing returns to fishers, promoting international markets, and increasing interprovincial and export trade in fish, fish products, and fish by-products.

The Corporation is a prescribed federal Crown corporation for tax purposes and is subject to federal income and large corporations taxes under the *Income Tax Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

Inventories

Finished fish products are recorded at the actual cost of fish purchases throughout the year plus the average actual cost for direct labour and overhead directly related to processing. At year-end, finished fish products are valued at the lower of cost and net realizable value. Packaging material and supplies are valued at the lower of cost and replacement cost.

Amortization

Amortization is based on the estimated useful lives of the assets using the following methods and annual rates:

Buildings	- Lake stations	Straight-line	5-10%
	- Plant	Straight-line	2 1/2%
Equipment	- Machinery and office equipment	Declining balance	10-40%
	- Automotive	Declining balance	30%
Fresh fish delivery tubs		Straight-line	10%
Vessels		Straight-line	6 2/3%

The costs for systems under development and plant assets being upgraded or purchased, but that are not yet operational, are charged to construction in progress. When the assets become operational, the cost is transferred to the appropriate capital asset classification and amortized accordingly.

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended April 30, 2003

1. AUTHORITY, OPERATIONS AND OBJECTIVES

The Corporation was established in 1969 by the *Freshwater Fish Marketing Act* for the purpose of marketing and trading in fish, fish products, and fish by-products in and outside of Canada. The Corporation is required to purchase all fish legally caught in the freshwater region, which encompasses the provinces of Alberta, Saskatchewan, Manitoba, parts of northwestern Ontario, and the Northwest Territories. Participation of these provinces and territory was established by agreement with the Government of Canada.

The Corporation is an agent Crown corporation named in Part I of Schedule III of the *Financial Administration Act*. The Corporation is required to conduct its operations on a self-sustaining basis without appropriations from Parliament and the total borrowings of the Corporation may not exceed \$24 million.

The Corporation has the exclusive right to trade and market the products of the commercial fishery on an interprovincial and export basis, and it exercises that right with the objectives of marketing fish in an orderly manner, maximizing returns to fishers, promoting international markets, and increasing interprovincial and export trade in fish, fish products, and fish by-products.

The Corporation is a prescribed federal Crown corporation for tax purposes and is subject to federal income and large corporations taxes under the *Income Tax Act*.

2. SIGNIFICANT ACCOUNTING POLICIES**Inventories**

Finished fish products are recorded at the actual cost of fish purchases throughout the year plus the average actual cost for direct labour and overhead directly related to processing. At year-end, finished fish products are valued at the lower of cost and net realizable value. Packaging material and supplies are valued at the lower of cost and replacement cost.

Amortization

Amortization is based on the estimated useful lives of the assets using the following methods and annual rates:

Buildings	- Lake stations	Straight-line	5-10%
	- Plant	Straight-line	2 1/2%
Equipment	- Machinery and office equipment	Declining balance	10-40%
	- Automotive	Declining balance	30%
Fresh fish delivery tubs		Straight-line	10%
Vessels		Straight-line	6 2/3%

The costs for systems under development and plant assets being upgraded or purchased, but that are not yet operational, are charged to construction in progress. When the assets become operational, the cost is transferred to the appropriate capital asset classification and amortized accordingly.

STATEMENTS

Payments to fishers and retained earnings

The Corporation purchases fish at initial prices established by the Board of Directors based upon operational forecasts prepared by the Corporation and the cost of such purchases is included in the cost of sales. Final payments to fishers, if any, are approved by the Board of Directors after the end of the year, based on the results of operations for the year, and are excluded from the cost of sales. The final payments are made in respect of products sold during the year and therefore are charged to operations of the current year. After the final payments are established, any remaining income for the year is recorded as retained earnings.

Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the exchange rate in effect at the time of the transactions. Amounts receivable and payable denominated in a foreign currency are translated into Canadian dollars at the year-end exchange rate. Foreign exchange gains and losses incurred on the settlement of amounts receivable and payable denominated in a foreign currency are included, on a net basis, as a component of export sales and interest expense, respectively.

Pension plan

Employees of the Corporation participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Corporation are both required to contribute to the cost of the plan. The Corporation's contributions are expensed on a current year basis and represent the total pension obligations of the Corporation. The Corporation is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Use of Estimates

Financial statements prepared in accordance with Canadian generally accepted accounting principles require management to make estimates and judgements that affect the amounts and disclosures reported in the financial statements. The more significant areas requiring the use of management estimates are related to the allowance for doubtful accounts and the provision to reduce all slow moving or unsellable finished fish inventories to their estimated net realizable value. Actual results may differ from those estimated, although management does not believe that any differences would materially affect the Corporation's financial position or reported results of its operations.

3. INVENTORIES (in thousands of dollars)

	2003	2002
Finished fish products	\$ 13,682	\$ 10,862
Packaging material and supplies	913	842
	\$ 14,595	\$ 11,704

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended April 30, 2003

4. CAPITAL ASSETS (in thousands of dollars)

	2003		2002	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 336	\$ -	\$ 336	\$ 336
Buildings	7,561	5,230	2,331	2,529
Equipment	18,100	14,655	3,445	3,081
Fresh fish delivery tools	767	354	413	415
Vessels	477	253	224	235
Construction in progress	127	-	127	93
	\$ 27,368	\$ 20,492	\$ 6,876	\$ 6,689

5. LOANS PAYABLE (in thousands of dollars)

	2003	2002
Promissory note	\$ -	\$ 3,919
Bankers' acceptance	14,000	7,600
	\$ 14,000	\$ 11,519

100% bank line of credit expires on May 2, 2003. The line of credit is secured by the Corporation's accounts receivable and inventory. The line of credit is used for working capital purposes and expires on May 2, 2003.

6. SALES COMMISSIONS

During the year, the Corporation paid commissions of \$1,090,393 (2002 - \$1,097,066) to sales agents, which are netted against sales in the statement of operations and retained earnings. Included in that amount is \$927,101 (2002 - \$991,657) of commissions paid to foreign sales agents.

7. FOREIGN CURRENCY RISK AND EXCHANGE GAINS AND LOSSES

Foreign currency risk is the risk that changes in exchange rates between the Canadian dollar and foreign currencies may adversely affect the Corporation's operating and financial results. The Corporation generates a significant portion of its sales in U.S. dollars and does not use derivative financial instruments to hedge its exposure to this foreign currency risk.

Export sales includes a net foreign exchange loss of \$1,079,335 incurred on the settlement of amounts receivable denominated in U.S. dollars during the year (2002 - net foreign exchange gain of \$286,792). Interest expense includes a net foreign exchange gain of \$342,736 incurred on the settlement of amounts payable denominated in U.S. dollars during the year (2002 - net foreign exchange loss of \$264,842).

8. PENSION PLAN

The Corporation's share of the total contributions paid to the employee pension plan for the current year was \$673,758 (2002 - \$567,401).

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended April 30, 2003

4. CAPITAL ASSETS (in thousands of dollars)

	2003		2002	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 336	\$ -	\$ 336	\$ 336
Buildings	7,561	5,230	2,331	2,529
Equipment	18,100	14,655	3,445	3,081
Fresh fish delivery tubs	767	354	413	415
Vessels	477	253	224	235
Construction in progress	127	-	127	93
	\$ 27,368	\$ 20,492	\$ 6,876	\$ 6,689

5. LOANS PAYABLE (in thousands of dollars)

	2003	2002
Promissory note	\$ -	\$ 3,919
Bankers acceptances	14,000	7,600
	\$ 14,000	\$ 11,519

The bankers acceptances are unsecured, bear interest at 3.30% (2002 - 2.29%) and mature on May 2, 2003.

6. SALES COMMISSIONS

During the year, the Corporation paid commissions of \$1,000,393 (2002 - \$1,097,966) to sales agents, which are netted against sales in the statement of operations and retained earnings. Included in that amount is \$927,101 (2002 - \$991,657) of commissions paid to foreign sales agents.

7. FOREIGN CURRENCY RISK AND EXCHANGE GAINS AND LOSSES

Foreign currency risk is the risk that changes in exchange rates between the Canadian dollar and foreign currencies may adversely affect the Corporation's operating and financial results. The Corporation generates a significant portion of its sales in U.S. dollars and does not use derivative financial instruments to hedge its exposure to this foreign currency risk.

Export sales includes a net foreign exchange loss of \$1,079,335 incurred on the settlement of amounts receivable denominated in U.S. dollars during the year (2002 - net foreign exchange gain of \$286,792). Interest expense includes a net foreign exchange gain of \$342,736 incurred on the settlement of amounts payable denominated in U.S. dollars during the year (2002 - net foreign exchange loss of \$264,842).

8. PENSION PLAN

The Corporation's share of the total contributions paid to the employee pension plan for the current year was \$673,758 (2002 - \$567,404).

9. INCOME TAXES

The Corporation is eligible to deduct for tax purposes a portion of its capital cost allowance, and accordingly, has no taxable income for the year (2002 - nil). At April 30, 2003 the estimate of the excess of undepreciated capital cost over the net book value of capital assets amounted to \$2,100,000 (2002 actual - \$1,971,000) which can be used to reduce future years' taxable income. No amount has been recorded in the financial statements with respect to this excess amount since it is unlikely that any future income tax benefits will be realized.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash, accounts receivable, accounts payable and accrued liabilities, provision for final payments to fishers, and loans payable are valued at their carrying values on the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the financial instruments.

11. COMPARATIVE FIGURES

Certain 2002 comparative figures have been restated to conform with the current year's presentation.

STATEMENTS



**Great
Lakes
Pilotage
Authority**



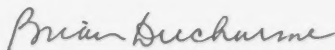
MANAGEMENT REPORT

The management of the Authority is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles and for all other information presented in the annual report. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgement in establishing reasonable estimates. Financial information shown elsewhere in this annual report is consistent with that contained in the financial statements.

Management maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis. These systems and practices provide reasonable assurance that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that the transactions are in accordance with the *Pilotage Act* and its regulations, the *Financial Administration Act* and its regulations, and the by-laws and policies of the Authority.

The Board of Directors is comprised of Directors who are not employees of the Authority except for the one pilot Board member. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee oversees the entity's systems of internal accounting and administration control. The Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Authority on the recommendation of the Audit Committee.

The external auditor, the Auditor General of Canada, is appointed under the *Pilotage Act* and has audited the financial statements in accordance with to Canadian generally accepted auditing standards. Her report outlines the nature of the audit and expresses her opinion on the financial statements of the entity.



B. Ducharme
Chair.



R.F. Lemire,
Chief Executive Officer.

Cornwall, Ontario
January 31, 2003.



AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of Great Lakes Pilotage Authority as at December 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

Francine Deneault-Bissonnette

Francine Deneault-Bissonnette, CA
Principal
for the Auditor General of Canada

Montreal, Canada
January 31, 2003

GREAT LAKES PILOTAGE AUTHORITY

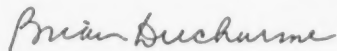
Balance Sheet as at December 31

	<u>2002</u>	<u>2001</u>
ASSETS		
Current		
Cash	\$ 327,218	\$ 966,529
Investments (Note 3)	-	2,295,923
Accounts receivable (Note 3)	<u>2,691,280</u>	<u>2,998,735</u>
	3,018,498	6,261,187
Long-term		
Investments (Note 3)	2,505,544	1,149,999
Segregated investments (Note 3)	3,032,615	2,999,482
Capital assets (Note 4)	<u>195,422</u>	<u>186,078</u>
	<u>\$8,752,079</u>	<u>\$10,596,746</u>
LIABILITIES		
Current		
Accrued salaries and benefits	\$3,906,212	\$ 4,149,441
Other accounts payable and accrued charges (Note 3)	167,617	255,702
Employee future benefits	<u>295,548</u>	<u>168,512</u>
	4,369,377	4,573,655
Long-term		
Employee future benefits	<u>2,738,125</u>	<u>2,817,996</u>
	<u>7,107,502</u>	<u>7,391,651</u>
EQUITY		
EQUITY OF CANADA		
Contributed capital	82,074	82,074
Retained earnings	<u>1,562,503</u>	<u>3,123,021</u>
	<u>1,644,577</u>	<u>3,205,095</u>
	<u>\$8,752,079</u>	<u>\$10,596,746</u>

Commitments (Note 5)

The notes are an integral part of the financial statements

Approved by the Board:



Director



Director

GREAT LAKES PILOTAGE AUTHORITY

Statement of Operations and Retained Earnings for the year ended December 31

	<u>2002</u>	<u>2001</u>
Revenues		
Pilotage charges	\$ 12,923,073	\$ 12,844,025
Interest and other income	242,856	432,224
Dispatching and pilot boat income	<u>123,374</u>	<u>131,755</u>
	<u>13,289,303</u>	<u>13,408,004</u>
Expenses		
Pilots' salaries and benefits	10,358,594	10,962,639
Transportation and travel	1,428,149	1,479,530
Operation staff salaries and benefits	966,829	1,054,871
Pilot boat services (Note 6)	613,183	617,828
Administration staff salaries and benefits	575,955	491,679
Employee future benefits	269,395	368,260
Professional and special services	130,028	88,682
Utilities, materials and supplies	118,766	135,955
Communications	87,324	83,090
Purchased dispatching services	84,150	94,082
Amortization	81,758	98,367
Rentals	70,749	66,101
Repairs and maintenance	35,029	31,223
Pilot training costs	<u>29,912</u>	<u>111,799</u>
	<u>14,849,821</u>	<u>15,684,106</u>
Net loss for the year	(1,560,518)	(2,276,102)
Retained earnings at beginning of the year	<u>3,123,021</u>	<u>5,399,123</u>
Retained earnings at end of the year	<u>\$ 1,562,503</u>	<u>\$ 3,123,021</u>

The notes are an integral part of the financial statements

GREAT LAKES PILOTAGE AUTHORITY

Statement of Cash Flows for the year ended December 31

	<u>2002</u>	<u>2001</u>
Cash provided by (used in):		
<u>Operating activities</u>		
Net loss for the year	\$ (1,560,518)	\$ (2,276,102)
Items not requiring cash		
Employee future benefits	47,165	195,800
Amortization	81,758	98,367
Net change in working capital components other than cash	<u>(23,859)</u>	<u>(725,384)</u>
	<u>(1,455,454)</u>	<u>(2,707,319)</u>
<u>Investing activities</u>		
Purchase of investments and segregated investments	(3,588,161)	(2,399,997)
Redemption of investments and segregated investments	4,495,406	6,140,229
Acquisition of capital assets	<u>(91,102)</u>	<u>(118,105)</u>
	<u>816,143</u>	<u>3,622,127</u>
Increase (decrease) in cash	(639,311)	914,808
Cash beginning of year	<u>966,529</u>	<u>51,721</u>
Cash end of year	<u>\$ 327,218</u>	<u>\$ 966,529</u>

The notes are an integral part of the financial statements

GREAT LAKES PILOTAGE AUTHORITY

Notes to Financial Statements

December 31, 2002

1. Authority and objectives

The Great Lakes Pilotage Authority, Ltd. was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and was continued under the *Canada Business Corporations Act*. Until October 1st, 1998, it operated under the name of Great Lakes Pilotage Authority, Ltd. and was a subsidiary of the St. Lawrence Seaway Authority. Pursuant to the *Marine Act*, which received Royal Assent on June 11 1998, the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority was deemed to have been established under subsection 3(1) of the *Pilotage Act*. The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act*.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The *Pilotage Act* provides that the pilotage tariffs shall be fair, reasonable and sufficient and, together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

The Authority is exempt from any income taxes.

2. Significant accounting policies

Investments

Investments are recorded at cost.

Amortization

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Furniture and equipment	5 to 10 years
Software and computer equipment	5 years

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. Contributions with respect to current service are expensed in the current period. Contributions with respect to past service benefits are expensed when paid. The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account. The Authority's current year's pension expense is \$1,095,945 (\$1,032,798 in 2001).

GREAT LAKES PILOTAGE AUTHORITY

Employee future benefits

The Great Lakes Pilotage Authority is required to recognize certain non-pension post employment benefits over the periods which the employees render services to the Authority through a severance benefit plan. The Authority recognizes the cost of future severance benefits over the periods in which the employees render services to the entity and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. The current portion of the liability reflects the accrued termination benefits of only those employees who have indicated their intention to terminate their employment within the coming year.

3. Financial Instruments

The Authority invests in Government of Canada Treasury Bills, government guaranteed bonds and Canadian chartered bank products (bankers acceptance, term deposits and certificates of deposit). Investments are at fixed rates of interest until maturity. The nature of the Authority's investments is not considered to have any significant exposure to credit risk.

	2002		2001	
	<u>Carrying value</u>	<u>Yield(%)</u>	<u>Carrying value</u>	<u>Yield (%)</u>
Maturing within 1 year:				
Certificates of deposit	-		\$1,200,000	6.20
Government of Canada bonds	-		200,000	5.05
Provincial bonds	-		895,923	5.40- 6.04
Total short term investments	-		2,295,923	
Maturing beyond 1 year:				
Government of Canada bonds	\$ 499,999	5.00-5.27	199,941	5.27
Provincial bonds	5,038,160	4.46-5.47	3,949,540	4.46- 5.65
Total long term and segregated investments	5,538,159		4,149,481	
Total investments	\$5,538,159		\$6,445,404	

Segregated investments have been established to provide funding for employee future benefits.

The carrying value of investments approximates both their market value and fair value.

Accounts receivable and accounts payables are incurred in the normal course of business. Both are due on demand. The carrying amounts of each financial instrument approximate fair values because of their short maturity. There are no concentrations of accounts receivable with any one customer.

GREAT LAKES PILOTAGE AUTHORITY

4. Capital assets

	2002		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Buildings	\$ 71,846	\$ 64,846	\$ 7,000
Furniture and equipment	256,350	221,654	34,696
Software and computer equipment	<u>588,332</u>	<u>434,606</u>	<u>153,726</u>
	<u>\$916,528</u>	<u>\$ 721,106</u>	<u>\$ 195,422</u>

	2001		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Buildings	\$ 71,846	\$ 64,436	\$ 7,410
Furniture and equipment	255,703	217,497	38,206
Software and computer equipment	<u>497,877</u>	<u>357,415</u>	<u>140,462</u>
	<u>\$ 825,426</u>	<u>\$ 639,348</u>	<u>\$ 186,078</u>

5. Commitments

The Authority has a lease agreement with the St. Lawrence Seaway Authority for the rental of office space which is managed by the St. Lawrence Seaway Management Corporation. Future minimum rental payments for the next two fiscal years are:

2003	51,564
2004	<u>4,297</u>
	<u>\$ 55,861</u>

In addition, the Authority has contract commitments for pilot boat services. Future minimum contract commitments for the next three fiscal years are:

2003	421,000
2004	435,000
2005	<u>448,000</u>
	<u>\$1,304,000</u>

6. Dispatching and pilot boat services to U.S. District No. 1 pilots

As per a letter of understanding, the Authority provides without charge all dispatching services and pilot boat services in Port Weller to the U.S. District No. 1 pilots. The St. Lawrence Seaway Pilots Association (U.S. Pilots Association) provides without charge pilot boat services for the Authority at Cape Vincent, New York.

7. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.

8. Comparative Figures

Certain 2001 amounts have been reclassified to conform with current year's presentation.



**International
Development
Research
Centre**

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements presented in this annual report are the responsibility of management and have been reviewed and approved by the Board of Governors of the Centre. The financial statements, which include amounts based on management's best estimates as determined through experience and judgement, have been properly prepared within reasonable limits of materiality and are in accordance with generally accepted accounting principles. Management also assumes responsibility for all other information in the annual report, which is consistent, where applicable, with that contained in the financial statements.

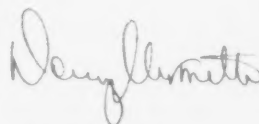
Management maintains financial systems and practices to provide reasonable assurance as to the reliability of financial information and to ensure that assets are safeguarded and the operations are carried out effectively and in accordance with the *International Development Research Centre Act* and bylaws of the Centre. The Centre has an Internal Audit department whose functions include reviewing internal controls and their application on an ongoing basis.

The Board of Governors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board benefits from the assistance of its Finance and Audit Committee in overseeing and discharging its financial management responsibility, which includes the review and approval of the financial statements. The Committee, which is made up of governors, meets with management, the internal auditors and the external auditors on a regular basis.

The Auditor General of Canada conducts an independent examination in accordance with Canadian generally accepted auditing standards. Her audit includes appropriate tests and procedures to enable her to express an opinion on the financial statements. The external auditors have full and free access to the Finance and Audit Committee of the Board.

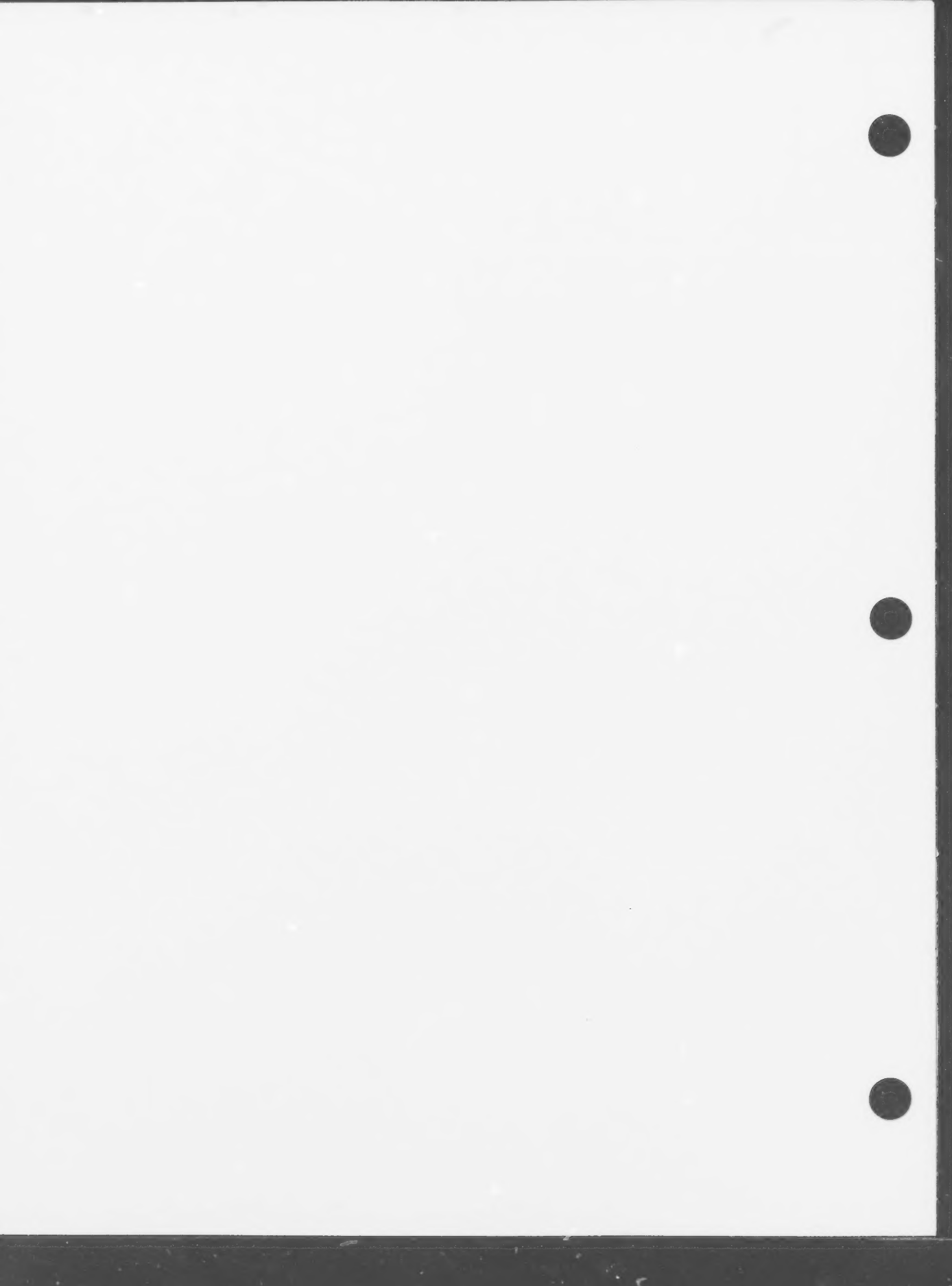


Maureen O'Neil
President



Denys Vermette
Vice-President, Resources and
Chief Financial Officer

Ottawa, Canada
30 May 2003





Auditor General of Canada
Vérificateur général du Canada

AUDITOR'S REPORT

To the International Development Research Centre
and the Minister of Foreign Affairs

I have audited the balance sheet of the International Development Research Centre as at 31 March 2003 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Centre as at 31 March 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Shahid Minto, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada

30 May 2003

Balance Sheet

as at 31 March 2003
(in thousands of dollars)

	2003	2002
Assets		
Current		
Cash and short-term investments (Note 3)		
Unrestricted	17 261	16 413
Restricted	13 413	31 104
Accounts receivable (Note 4)	5 196	3 191
Prepaid expenses	1 323	1 280
	<u>37 193</u>	<u>51 988</u>
Long-term investments (Note 5)	2 983	2 983
Capital assets (Note 6)	5 931	5 499
Recoverable deposits	117	129
	<u>46 224</u>	<u>60 599</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 4)	9 822	7 166
Deferred revenue (Note 8)	12 559	32 325
	<u>22 381</u>	<u>39 491</u>
Deferred revenue — long-term (Note 8)	4 170	454
Deferred funding — capital assets (Note 9)	5 931	5 499
Provision for employee future benefits other than pension	3 748	3 527
Deferred rent — head office	2 030	1 757
	<u>38 260</u>	<u>50 728</u>
Equity	<u>7 964</u>	<u>9 871</u>
	<u>46 224</u>	<u>60 599</u>
Commitments (Note 13 and 14)		
Contingencies (Note 16)		

The accompanying notes form an integral part of the financial statements.

Approved on behalf of the Board:

Naureen O'Neil

President

Donna L. Smith

Vice President, Resources
and Chief Financial Officer

Statement of Operations and Equity

for the year ended 31 March 2003
(in thousands of dollars)

	2003	2002
Revenues		
Resource expansion (Note 10)	36 505	47 515
Recovery of indirect costs (Note 10)	1 218	1 615
Investment income	1 140	779
Other income	1 565	1 202
	<u>40 428</u>	<u>51 111</u>
Expenses		
Development research programs		
Centre programs	61 389	50 997
Resource expansion	36 505	47 515
	<u>97 894</u>	<u>98 512</u>
Development research support		
Technical support	10 967	9 756
Program complements	4 551	4 436
Program management	4 634	4 638
	<u>20 152</u>	<u>18 830</u>
Administrative services		
Administration	17 072	16 144
Regional office management	4 820	5 385
	<u>21 892</u>	<u>21 529</u>
Total Expenses (Schedule I)	<u>139 938</u>	<u>138 871</u>
Net cost of operations before government funding	<u>(99 510)</u>	<u>(87 760)</u>
Parliamentary appropriation (Note 11)	92 629	93 139
Supplementary Parliamentary appropriation (Note 12)	2 807	1 956
Amortization of deferred funding — capital assets (Note 9)	2 167	2 069
	<u>97 603</u>	<u>97 164</u>
Results of operations before restructuring costs	(1 907)	9 404
Restructuring costs	<u>—</u>	<u>(311)</u>
Net results of operations	(1 907)	9 715
Equity at beginning of the year	<u>9 871</u>	<u>156</u>
Equity at end of the year	<u>7 964</u>	<u>9 871</u>

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows

for the year ended 31 March 2003
(in thousands of dollars)

	2003	2002
Cash flows from operating activities		
Net results of operations	(1 907)	9 715
Items not affecting cash		
Amortization of capital assets	2 167	2 069
Loss (gain) on disposal of capital assets	(12)	65
Provision for employee future benefits	434	587
Amortization of deferred rent	273	273
	2 862	2 994
Net change in working capital other than cash and short-term investments	(17 859)	(1 679)
Net cash flows (used in) from operating activities	(16 904)	11 030
Cash flows from financing activities		
Increase (decrease) in deferred revenue — long-term	2 216	(1 131)
Capital funding	2 599	1 750
Amortization of deferred funding — capital assets	(2 167)	(2 069)
Net cash flows from (used in) financing activities	2 648	(1 450)
Cash flows from investing activities		
Additions to capital assets	(2 587)	(1 815)
Decrease in restricted cash	17 691	436
Net cash flows from (used in) investing activities	15 104	(1 379)
Net increase in cash	848	8 201
Unrestricted cash and short-term investments, beginning of the year	16 413	8 212
Unrestricted cash and short-term investments, end of the year	17 261	16 413

The accompanying notes form an integral part of the financial statements.

Schedule of Expenses

as at 31 March 2003
(in thousands of dollars)

	2003	2002
Schedule I		
Grant payments	78 857	55 965
Salaries and benefits	31 374	31 532
Professional services	8 590	11 849
Accommodation and building maintenance	5 977	6 304
Travel	5 388	5 657
Amortization	2 167	2 069
Meetings and Conferences	2 010	2 790
Training	1 737	1 883
Communications	1 347	1 803
Equipment and vehicle maintenance	842	793
Supplies	753	17 321
Books and periodicals	330	285
Insurance	120	124
Miscellaneous	446	496
Total Expenses on Statement of Operations and Equity	<u>139 938</u>	<u>138 871</u>

NOTES TO FINANCIAL STATEMENTS

(in thousands of dollars unless otherwise stated)

1. Authority and objective

The International Development Research Centre (the Centre), a corporation without share capital, was established in 1970 by the Parliament of Canada through the *International Development Research Centre Act*. The Centre is funded mainly through an annual appropriation received from the Parliament of Canada. For purposes of the *Income Tax Act*, the Centre is deemed to be a registered charitable organization.

The objective of the Centre is to initiate, encourage, support, and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical, and other knowledge to the economic and social advancement of those regions.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies.

A) Government funding

The portion of the Parliamentary appropriation used to fund the purchase of capital assets is deferred and amortized on the same basis and over the same period as the related capital assets. The balance is recognized in the year for which it is approved. Parliamentary appropriations received for specific projects are deferred and recognized when the related project expenses are incurred.

B) Revenues

Funds received or receivable in respect to resource-expansion contracts are recorded as deferred revenues. These deferred revenues are recognized as revenues in the year in which the related project expenses are incurred. All other revenues are recorded on the accrual basis of accounting.

C) Grant payments

All contractual grant payments are subject to the provision of funds by Parliament. They are recorded as an expense in the year they come due under the terms and conditions of the agreements and the Centre's payment policy. Refunds on previously disbursed grant payments are credited against current-year expenses when the project is active or to other income when the project is closed.

D) Capital assets and amortization

Capital assets are recorded at cost and amortized, starting in the subsequent year of acquisition, over their estimated useful lives on a straight-line basis. The estimated useful life of each capital asset class is as follows:

Computer equipment	3 years
Software	3 or 5 years
Office furniture and equipment	5 years
Vehicles	3 years
Telephone system	5 years
Leasehold improvements	Remaining term of lease

E) Investments

Short-term investments are recorded at the lower of cost and market value. Long-term investments are recorded at cost. When there is a loss in value that is other than a temporary decline, the long-term investment is written down to recognize the loss.

F) Foreign-currency translation

Foreign-currency transactions are translated weekly into Canadian dollars at the exchange rate in effect on the last day of the previous week. Monetary assets and liabilities are adjusted to reflect the rate of exchange in effect at year-end. Exchange gains and losses are included in operations for the current year under other income.

G) Provision for employee future benefits other than pension

Generally, employees with more than five years of service are entitled to a severance benefit calculated on the basis of one week of salary per year of service. The liability for this benefit is recorded in the accounts as the benefits accrue to employees.

H) Deferred rent

Any rent-free period or other incentives associated with long-term leases are deferred and amortized over the term of the lease on a straight-line basis as a reduction to the expense.

I) Pension costs

The Centre's eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The employees and the Centre contribute to the cost of the Plan. Contributions by the Centre are expended in the period incurred and represent the total cost to the Centre under the Plan. The Centre is not required under current legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

3. Cash and short-term investments

	2003	2002
Cash	1 434	3 563
Short-term investments		
Canadian chartered banks	16 908	26 057
Commercial corporations	12 332	17 897
	<u>30 674</u>	<u>47 517</u>

The Centre is authorized to invest in interest-bearing securities such as issued by the above-noted entities. These funds are invested in short-term money market instruments that are rated R-1 (low) or better by a recognized bond-rating agency. The investment vehicles consist primarily of banker's acceptance and short-term notes.

The average yield of the portfolio, as at 31 March 2003 is 3.07% (2002, 2.19%) and the average term to maturity is 69 days (2002, 85 days). The fair market value of the investment portfolio as at 31 March 2003 approximates the net book value.

The Centre has various banks accounts, some of which have a line of credit associated with them. As at 31 March 2003, all balances in these line of credit accounts were nil.

Of the total cash and short-term investments, \$13 413 (2002, \$31 104) is restricted for specific research activities, as follows:

	2003	2002
Resource expansion	3 199	25 106
Health support — Africa	792	1 704
Institute for Connectivity in the Americas	8 913	3 807
Endowment funds	509	487
	<u>13 413</u>	<u>31 104</u>

4. Accounts receivable and payable

Accounts receivable and accounts payable are incurred in the normal course of business. All are due on demand and are noninterest bearing. The carrying amounts of each approximate fair value because of their short maturity. A large portion (20%) of accounts receivable are due from the Canadian International Development Agency (CIDA) and does not present a significant credit risk. Of the total accounts receivable, \$3 825 (2002, \$2 162) is on account of resource-expansion activities.

5. Long-term investments

These funds are invested in a Government of Canada bond that matures in 2004. The average yield of the bond, as at 31 March 2003, is 6.50% (2002, 6.50%) and the initial average term to maturity is 7 years. The fair market value of the bond as at 31 March 2003 is \$3 098 (2002, \$3 124).

6. Capital assets

	Cost		Accumulated amortization		Net book value	
	2003	2002	2003	2002	2003	2002
Computer equipment	7 406	7 048	5 540	5 697	1 866	1 351
Leasehold improvements	2 293	2 026	1 549	1 310	744	716
Software	6 084	5 050	3 454	2 544	2 620	2 506
Office furniture and equipment	2 046	2 049	1 577	1 440	469	609
Telephone system	1 350	1 316	1 281	1 207	69	109
Vehicles	939	944	776	736	163	208
	<u>20 118</u>	<u>18 433</u>	<u>14 187</u>	<u>12 934</u>	<u>5 931</u>	<u>5 499</u>

Amortization expense for the year is \$2 167 (2002, \$2 069).

7. Pension plan

The Centre's contributions to the Public Service Superannuation Plan do not generally exceed 2.14 times the employees' contribution on account of current and certain past service. Contributions to the Public Service Superannuation Plan consisted of the following:

	2003	2002
Contributions by the Centre	2 335	2 354
Contributions by employees	938	919

8. Deferred revenue

Deferred revenue includes the unspent portion at 31 March 2003 of funds received, or receivable, on resource-expansion activities as well as the unspent portion of the two supplementary Parliamentary appropriations (see Note 12). Details of these balances are as follows:

	2003	2002
Current		
Resource expansion	7 025	27 268
Supplementary Parliamentary appropriation		
Health support — Africa	534	1 250
Institute for Connectivity in the Americas (ICA)	5 000	3 807
	<u>12 559</u>	<u>32 325</u>
Long-term		
Supplementary Parliamentary appropriation		
Health support — Africa	257	454
Institute for Connectivity in the Americas (ICA)	3 913	—
	<u>4 170</u>	<u>454</u>

Of the total deferred resource-expansion funding, CIDA accounts for \$2 473 (2002, \$20 455) of which \$1 449 (2002, \$19 609) was received and \$1 024 (2002, \$846) is receivable at year end.

9. Deferred funding — capital assets

	2003	2002
Balance at beginning of year	5 499	5 818
Funding for capital assets purchased	2 599	1 750
Amortization	<u>(2 167)</u>	<u>(2 069)</u>
Balance at end of year	<u>5 931</u>	<u>5 499</u>

10. Resource-expansion activities

Resource-expansion activities relate specifically to research conducted or managed by the Centre on behalf of other organizations. This research is funded by CIDA, other Government of Canada entities, and other agencies. A breakdown of the revenue and expense recognition for resource expansion is provided below:

	2003	2002
CIDA	25 068	35 971
Other agencies	8 051	10 570
Other Government of Canada entities	3 386	974
	<u>36 505</u>	<u>47 515</u>

The Centre recovers indirect costs from the administration of resource-expansion activities. This year's total is \$1 218 (2002, \$1 615) of which \$495 (2002, \$893) was recovered from CIDA.

11. Parliamentary appropriation

	2003	2002
Parliamentary appropriation approved	95 228	94 889
Deferral for capital assets purchased (Note 9)	(2 599)	(1 750)
Parliamentary appropriation recognized in the statement of operations and equity	<u>92 629</u>	<u>93 139</u>

12. Supplementary Parliamentary appropriations

In March 1994, the Centre received a supplementary Parliamentary appropriation of \$15 million for a health support project in Africa. In September 2001, the Institute for Connectivity in the Americas was approved for \$20 million. For the current fiscal year, the total revenue recognized from these two sources is \$2.8 million (2002, \$2.0 million).

13. Operating lease commitments

The Centre has entered into various lease arrangements for staff accommodation in various countries and for office premises and equipment in Canada and abroad. Those lease agreements expire at different dates up to 2010. The total minimum annual payments under various lease arrangements will be as follows:

2003/04	5 597
2004/05	5 493
2005/06	6 223
2006/07	7 166
2007-2010	<u>4 778</u>
Total	<u>29 257</u>

14. Contractual commitments — project related

The Centre is committed to make payments up to \$83.7 million (2002, \$115.8 million) during the next four years subject to funds being provided by Parliament or external partners and subject to compliance by recipients with the terms and conditions of project agreements. Of this amount, the Centre is responsible for \$64.5 million (2002, \$59.2 million) and the balance of \$19.2 million (2002, \$56.6 million) is provided by external partners.

15. Related party transactions

In addition to those related party transactions disclosed elsewhere in these financial statements, the Centre is related in terms of common ownership to all Government of Canada created departments, agencies, and Crown corporations. The Centre enters into transactions with these entities in the normal course of business.

16. Contingencies

A claim of approximately \$0.6 million relating to a leased property remains outstanding at the end of the year. Based on the advice of legal counsel, management is of the opinion that it is not possible to determine the amount of the liability, if any, that may result from settlement of this claim.

The Centre is a defendant in other pending lawsuits. In management's opinion, the outcome of these other actions is not likely to result in any material liabilities.

**Laurentian
Pilotage
Authority**



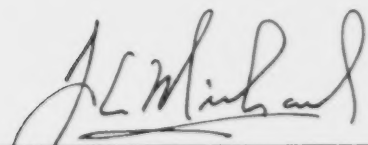
STATEMENT OF MANAGEMENT RESPONSIBILITY

The management of the Authority is responsible for the performance of the duties delegated to them by its Board of Directors. These include the preparation of the annual report and the production of its content, including the financial statements. The financial statements were prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with that of the preceding year, and include estimates based on management's experience and judgement.

Management maintains books and records, financial and management control, information systems and management practices designed in such a manner as to provide reasonable assurance that: reliable and accurate financial information is produced on a timely basis; assets are safeguarded and controlled; transactions are in accordance with Part X of the *Financial Administration Act* and its regulations as well as the *Pilotage Act* and regulations and by-laws of the Authority and any directives given to it; resources are managed economically and efficiently, and that the operations of the corporation are carried out effectively.

The Auditor General of Canada conducts an independent audit of the financial statements of the Authority in accordance with Canadian generally accepted auditing standards.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee, composed of three directors who are not employees of the Authority. The Audit Committee discharges the responsibilities conferred upon it by the Board of Directors, and meets on a regular basis with management and the Auditor General of Canada, who has unrestricted access to the Committee.



Jean-Claude Michaud
Chief Executive Officer



Yvon Martel
Treasurer

Montreal, Quebec
February 14, 2003



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of Laurentian Pilotage Authority as at December 31, 2002 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

Francine Deneault-Bissonnette

Francine Deneault-Bissonnette, CA
Principal
for the Auditor General of Canada

Montreal, Canada
February 14, 2003

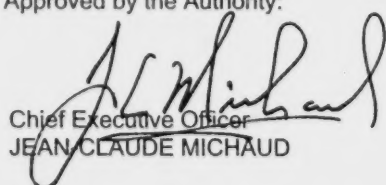
LAURENTIAN PILOTAGE AUTHORITY

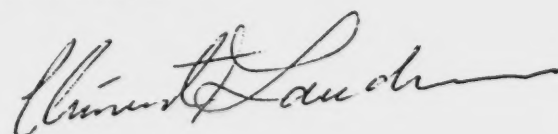
Balance Sheet as at December 31, 2002

	2002	2001
Assets		
Current		
Accounts receivable	\$8,200,349	\$6,196,492
	<u>8,200,349</u>	<u>6,196,492</u>
Long term		
Trust account – contingency (Note 6 b)	--	916,897
Capital assets (Note 4)	2,477,043	2,685,863
	<u>2,477,043</u>	<u>3,602,760</u>
Total assets	<u>\$10,677,392</u>	<u>\$9,799,252</u>
Liabilities		
Current		
Bank indebtedness	\$1,849,596	\$1,246,609
Current portion of bank loans (Note 5)	149,566	432,000
Accounts payable	8,029,788	6,760,517
	<u>10,028,950</u>	<u>8,439,126</u>
Long term		
Liability relating to a contingency (Note 6 b)	--	916,897
Provision for employee termination benefits	760,030	817,005
Bank loans (Note 5)	1,524,857	1,674,266
	<u>2,284,887</u>	<u>3,408,168</u>
Total liabilities	<u>12,313,837</u>	<u>11,847,294</u>
Equity of Canada		
Contributed capital	2,479,154	2,479,154
Accumulated deficit	(4,115,599)	(4,527,196)
	<u>(1,636,445)</u>	<u>(2,048,042)</u>
Total liabilities and Equity of Canada	<u>\$10,677,392</u>	<u>\$9,799,252</u>

The accompanying notes are an integral part of these financial statements.

Approved by the Authority:


Chief Executive Officer
JEAN-CLAUDE MICHAUD


Member
CLÉMENT GAUDREAU

LAURENTIAN PILOTAGE AUTHORITY

Statement of Operations and Deficit for the year ended December 31, 2002

	2002	2001
Revenues		
Pilotage charges (Note 6 b)	\$46,647,184	\$41,069,115
Interest and other revenues	87,005	45,608
	<u>46,734,189</u>	<u>41,114,723</u>
Expenses		
Pilots' fees, salaries and benefits (Note 6 b)	37,379,637	32,972,636
Operating costs of pilot boats (Note 5)	4,674,311	4,376,711
Staff salaries and benefits	2,347,545	2,302,056
Professional and special services	979,892	696,510
Rentals	229,772	228,791
Utilities, material and supplies	120,364	94,428
Transportation, travel and hospitality	88,957	106,228
Communications	65,418	68,493
Financing costs	58,645	123,153
Maintenance	25,966	42,784
Other	352,085	263,008
	<u>46,322,592</u>	<u>41,274,798</u>
Net profit (loss) for the year	411,597	(160,075)
Accumulated deficit, beginning of the year	(4,527,196)	(4,367,121)
Accumulated deficit, end of the year	<u>\$ (4,115,599)</u>	<u>\$ (4,527,196)</u>

The accompanying notes are an integral part of these financial statements.

LAURENTIAN PILOTAGE AUTHORITY

**Statement of Cash Flows
for the year ended December 31, 2002**

	<u>2002</u>	<u>2001</u>
Operating activities		
Net profit (loss) for the year	\$411,597	\$(160,075)
Non-cash items:		
Amortization	476,737	433,055
Decrease in the provision for employee termination benefits	<u>(56,975)</u>	<u>(24,217)</u>
	831,359	248,763
 Decrease (increase) in accounts receivable	 (2,003,857)	 1,166,259
Increase (decrease) in accounts payable	<u>1,269,271</u>	<u>(558,557)</u>
	96,773	856,465
 Investing activities		
Additions to capital assets	(267,917)	(113,290)
 Financing activities		
Repayment of bank loans	<u>(431,843)</u>	<u>(718,335)</u>
 Bank indebtedness		
Decrease (increase) for the year	(602,987)	24,840
Balance, beginning of the year	<u>(1,246,609)</u>	<u>(1,271,449)</u>
Balance, end of the year	<u><u>\$(1,849,596)</u></u>	<u><u>\$(1,246,609)</u></u>
 Supplemental information		
Interest paid	<u>\$166,924</u>	<u>\$246,201</u>

The accompanying notes are an integral part of these financial statements.

LAURENTIAN PILOTAGE AUTHORITY

Notes to Financial Statements December 31, 2002

1. Authority and activities

The Laurentian Pilotage Authority was established in 1972 under the *Pilotage Act*. Its objectives are to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within certain designated Canadian waters in and around the Province of Quebec. The Act provides that pilotage tariffs shall be fair and reasonable and assure a revenue which, together with any revenue from other sources, is sufficient to permit the Authority to operate on a self-sustaining basis. In accordance with the new *Canada Marine Act* assented to on June 11, 1998 that modified the *Pilotage Act*, the Authority no longer has access to Parliamentary appropriations.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Authority is not an agent of Her Majesty and is exempt from income taxes.

2. Significant accounting policies

The financial statements of the Laurentian Pilotage Authority have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements are summarized below.

Capital assets

Capital assets obtained from Canada when the Authority was established were recorded at the then assigned values. Capital assets purchased subsequently by the Authority are recorded at cost.

Capital assets are amortized using the straight-line method, at rates based on the estimated useful lives of the assets.

The estimated useful lives for the major categories of capital assets for the purposes of calculating amortization are as follows:

Buildings	10 years and 20 years
Pilot boats	10 years and 15 years
Furniture and fixtures	10 years
Communications equipment	5 years
Computer equipment	3 years and 5 years
Boarding facilities	15 years and 20 years
Wharf improvements	15 years

Contributed capital

The values assigned to the capital assets obtained from Canada when the Authority was established and the net cost of capital assets financed from parliamentary appropriations are recorded as contributed capital.

LAURENTIAN PILOTAGE AUTHORITY

Notes to Financial Statements (continued) December 31, 2002

Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Both employees and the Authority contribute to the cost of the Plan. This contribution represents the total pension obligation of the Authority. Contributions in respect of current service and of admissible past service are expensed when paid. The terms of payment of past service contributions are set by the applicable purchase conditions, generally over the number of years of service remaining prior to retirement. The Authority's current year's pension expense is \$413,899 (\$371,674 in 2001). The employee contribution is \$156,335 (\$145,116 in 2001).

The Authority is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Others employees future benefits

The Authority is required to recognize certain non-pension post-employment benefits over the periods which employees rendered services to the Authority. Employees are entitled to specified benefits on termination as provided for under conditions of employment, through a severance benefit plan. The Authority recognizes the cost of future severance benefits over the periods in which the employees render services to the entity and the liability for these benefits is recorded in the accounts as the benefits accrue to employees.

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

3. Fair values of financial instruments

The transactions related to accounts receivable and accounts payable are incurred in the normal course of business. The carrying amounts of each of these accounts approximate their fair value because of their short-term maturity. There is no concentration of accounts receivable with any customer and, consequently, the credit risk is low.

On December 31, 2002, the fair value of the bank loans is estimated at \$1,756,082 (\$2,136,723 on December 31, 2001) while the book value is \$1,674,423 (\$2,106,266 on December 31, 2001). This estimate is based on the future principal repayments discounted at current interest rates for similar loans.

LAURENTIAN PILOTAGE AUTHORITY

Notes of Financial Statements (continued) December 31, 2002

4. Capital assets

	2002			2001		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Land	\$9,300	\$--	\$9,300	\$9,300	\$--	\$9,300
Buildings	128,852	55,231	73,621	127,394	49,249	78,145
Pilot Boats	2,990,196	1,646,962	1,343,234	2,990,196	1,483,190	1,507,006
Furniture and fixtures	170,480	134,964	35,516	155,214	128,364	26,850
Communications equipment	65,489	47,939	17,550	111,739	85,320	26,419
Computer equipment	1,175,568	631,344	544,224	931,724	469,877	461,847
Boarding facilities	91,285	91,285	--	303,344	245,445	57,899
Wharf improvements	1,090,318	636,720	453,598	1,090,318	571,921	518,397
	<u>\$5,721,488</u>	<u>\$3,244,445</u>	<u>\$2,477,043</u>	<u>\$5,719,229</u>	<u>\$3,033,366</u>	<u>\$2,685,863</u>

Amortization for the year is \$476,737 (\$433,055 in 2001).

5. Bank Loans

Loan to finance the acquisition of a pilot boat matures in 2008 and bears interest at a rate of 6.54%. The capital repayments are calculated based on an amortization period of 10 years, guaranteed by a first maritime mortgage on a pilot boat with a net book value of \$1,279,293.

2002	2001
<u>\$1,674,423</u>	<u>\$1,814,419</u>

Loan to finance the cash deficit of the year 1996 matures in 2002 and bears interest at a rate of 7.10%.

--	291,847
<u>1,674,423</u>	<u>2,106,266</u>

Less : current portion

<u>149,566</u>	<u>432,000</u>
<u>\$1,524,857</u>	<u>\$1,674,266</u>

As at December 31, the capital repayments of these loans for the following years are as follows :

2002	--	432,000
2003	149,566	149,409
2004	159,478	159,478
2005	170,227	170,227
2006	181,699	181,699
2007 and 2008	1,013,453	1,013,453
	<u>\$1,674,423</u>	<u>\$2,106,266</u>

LAURENTIAN PILOTAGE AUTHORITY

Notes to Financial Statements (continued) December 31, 2002

Interest expense in the amount of \$113,183 (\$132,584 in 2001) related to the bank loan to finance a pilot boat is recorded in the item "Operating costs of pilot boats".

6. Contingencies

- a) In connection with its operations, the Authority is the claimant or defendant or otherwise involved in pending claims and lawsuits. It is the opinion of management that these actions will not result in any material liabilities to the Authority. No provision has been recorded in the accounts in this regard.
- b) For one of these claims, one provider of the pilotage services contested the application of the pilotage regulations with respect to double pilotage for certain types of ships. The claim for pilot fees extended over the last five years. In 2002, the Federal Court rendered a decision in favour of the service provider. As a result, the Authority received in 2002 revenues in the order of \$1,991,000 and paid expenses in the order of \$1,978,000 and removed from its balance sheet the trust account and the liability relating to last year's contingency.
- c) In a new claim, the Authority recently remitted a claim to one of its clients for pilotage charges in accordance with section 44 of the *Pilotage Act*. A ship subject to compulsory pilotage was proceeding without being under the conduct of a licensed pilot or the holder of a pilotage certificate. On one hand, the Authority is claiming pilotage revenues in the order of \$1,600,000 (excluding taxes) over a period of 15 years. This claim could possibly be reduced to \$400,000 should the Court decide that the prescription period is three years. On the other hand, as stipulated in the service contracts, the service providers can claim pilot fees from the Authority in such instances. However, there is uncertainty as to the amounts they could claim from the Authority. The final outcome of this claim cannot be determined at this time. It is the opinion of management that it will not result in any material liabilities to the Authority. The impact on pilotage charges and on pilot fees will be recorded in the year where the situation will be resolved.

7. Commitments

The future minimum payment commitments under an operating lease related to the rental of premises are as follows:

2003	\$185,251
2004	30,875
	<u>\$216,126</u>

During the year 2000, the Authority signed a contract for the lease of a pilot boat that was delivered in the spring of 2001. The lease contract has a seven-year term from May 2001 to April 2008. Monthly payments are of \$29,121. The future minimum payments under this contract are as follows:

2003	\$349,455
2004	349,455
2005	349,455
2006	349,455
2007 and 2008	\$465,940
	<u>\$1,863,760</u>

8. Related party transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business.



**Marine
Atlantic
Inc.**



AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of Marine Atlantic Inc. as at December 31, 2002 and the statements of earnings and deficit and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Marine Atlantic Inc. Acquisition Authorization Act* and the articles of incorporation and by-laws of the Corporation and its wholly-owned subsidiary.



John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 19, 2003



MANAGEMENT RESPONSIBILITIES FOR FINANCIAL REPORTING

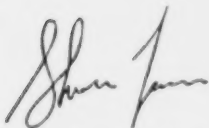
The preparation and presentation of the financial statements is the responsibility of Marine Atlantic Inc.'s management. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles consistently applied. These principles have been applied using management's best estimates and judgements that are considered appropriate to the Corporation's circumstances. Management also relies on actuarial reports to record the activities of the pension fund, provision for workers' compensation and other non-pension employee future benefits.

Management is responsible for the reliability and integrity of the financial statements including the notes to the statements and other financial information contained in the annual report. Management is also responsible for maintaining books of account, information systems, systems of financial and management control, and a comprehensive internal audit program. These managerial controls and procedures are intended to provide reasonable assurance that accurate financial information is available, that assets are safeguarded and controlled, that resources are managed efficiently, and that transactions are conducted in accordance with relevant legislation and the articles of incorporation and by-laws of the Corporation and its wholly-owned subsidiary.

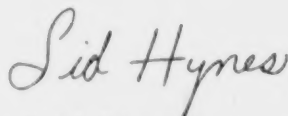
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, on behalf of the Board, fulfills this responsibility. The Committee reviews matters related to accounting, auditing, internal control systems, and the financial statements. The Corporation has an Internal Audit Department, whose functions include reviewing internal controls and their application on an ongoing basis.

The Auditor General of Canada, the independent auditor of the Corporation appointed under the *Financial Administration Act*, has audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards. The independent auditor has full and unrestricted access to the Audit Committee to discuss her audit and related findings.

The financial statements and the annual report have been approved by the Board of Directors.



Shawn Leamon, CGA
Comptroller



Captain Sidney J. Hynes
Chairman of the Board and
Acting President & CEO

St. John's, NL
February 19, 2003

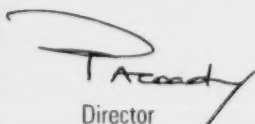
BALANCE SHEET

as at December 31
(in thousands of dollars)

	2002	2001
Assets		
Current assets:		
Cash	\$ 8,133	\$ 8,875
Accounts receivable (note 3)	4,338	4,960
Inventory of fuel and supplies	5,563	4,240
Prepaid expenses	493	356
	18,527	18,431
Capital assets (note 4)	208,336	226,469
Deferred pension asset (note 5)	46,949	48,906
	\$ 273,812	\$ 293,806
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,481	\$ 10,938
Payable to Government of Canada (note 6)	1,066	5,945
Accrued vacation pay	4,629	3,949
Payable to third parties on behalf of subsidiary (note 7)	198	395
Current portion for long term provisions (notes 8, 9 and 10)	4,963	5,708
	27,337	26,935
Long-term liabilities:		
Provision for restructuring (note 8)	5,309	8,140
Provision for workers' compensation (note 9)	11,889	11,989
Provision for other non-pension employee future benefits (note 10)	15,317	14,309
	32,515	34,438
Deferred capital assistance	208,336	226,469
Shareholder's equity:		
Share capital (note 11)	258,530	258,530
Deficit	(252,906)	(252,566)
	5,624	5,964
Commitments and contingencies (note 13)		
	\$ 273,812	\$ 293,806

See accompanying notes to financial statements.

Approved by the Board of Directors:


Director


Director

STATEMENT OF EARNINGS AND DEFICIT

Year ended December 31
(in thousands of dollars)

	2002	2001
Revenue:		
Commercial revenue	\$ 64,843	\$ 58,541
Charter revenue	-	2,242
	64,843	60,783
Operating expenses:		
Wages and benefits	60,143	47,315
Repairs and maintenance	16,128	13,074
Fuel	14,865	18,150
Materials, supplies and services	9,828	10,205
Insurance, rent and utilities	2,667	2,430
Other	2,155	2,697
Loss on disposal of capital assets	254	2,002
Amortization	21,282	21,049
	127,322	116,922
Loss before government funding	62,479	56,139
Government funding:		
Operations	36,660	32,403
Restructuring	3,943	4,615
Amortization of deferred capital assistance	21,536	23,051
Net (loss) earnings	(340)	3,930
Deficit, beginning of year	(252,566)	(256,496)
Deficit, end of year	\$ (252,906)	\$ (252,566)

See accompanying notes to financial statements.

STATEMENT OF CASH FLOW

Year ended December 31

(in thousands of dollars)

	2002	2001
Cash flows from (used):		
Operating activities:		
Cash receipts from customers	\$ 64,937	\$ 60,155
Government operating and restructuring funding	35,724	37,445
Cash paid to suppliers and employees	(95,089)	(88,416)
Cash paid for restructuring	(4,226)	(5,385)
Cash paid for pension, workers' compensation and other non-pension employee future benefits	(2,088)	(1,623)
	(742)	2,176
Investing activities:		
Purchase of capital assets	(3,403)	(22,926)
Financing activities:		
Government capital assistance	3,403	27,052
Net (decrease) increase in cash	(742)	6,302
Cash, beginning of year	8,875	2,573
Cash, end of year	\$ 8,133	\$ 8,875

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2002
(in thousands of dollars)

1. Nature of Operations and Authority:

The *Marine Atlantic Inc. Acquisition Authorization Act* was proclaimed in 1986. In accordance with the *Act*, the Corporation's articles restrict the business it may carry on to the acquisition, establishment, management and operation of a marine transportation service, a marine maintenance repair and refit service, a marine construction business and any service or business related thereto. The corporate mission is "to provide our customers with a safe, environmentally responsible and quality Newfoundland-mainland ferry service in a reliable, courteous and cost effective manner." Marine Atlantic Inc. is a federal Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. Marine Atlantic Inc.'s wholly-owned subsidiary, the Newfoundland Dockyard Corporation, has ceased operations.

The Corporation's activities are also governed by agreements negotiated with the Government of Canada, subject to approval of parliamentary appropriations. The agreements provide, among other things, for the Corporation to receive parliamentary appropriations for operations from the Government of Canada to the extent that the cost of providing ferry services is not recovered from commercial revenues. The acquisition of capital assets and funding requirement for restructuring costs are also governed by agreements, subject to approval of parliamentary appropriations.

The Corporation operates a ferry service between Nova Scotia and the Province of Newfoundland and Labrador. This service encompasses the year-round ferry service between North Sydney, Nova Scotia and Port aux Basques, Newfoundland and Labrador and the seasonal summer service between North Sydney, Nova Scotia and Argentia, Newfoundland and Labrador.

The Corporation is economically dependent on the Government of Canada.

2. Significant Accounting Policies:

The significant accounting policies described below are appropriate under the current circumstances.

(a) Basis of presentation:

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The Corporation has completed the sale of the assets of the Newfoundland Dockyard Corporation and is discharging outstanding liabilities.

(b) Parliamentary appropriations:

Parliamentary appropriations to fund the current cash needs, related to operating expenses and restructuring costs in excess of commercial revenues, are included in earnings for the year. Any difference between amounts provided and required represents a receivable from (payable to) the Government of Canada. The amount approved by Parliament is the upper limit of available funding to the Corporation. Funds related to capital additions are recorded as deferred capital assistance in the year in which the related capital assets are acquired, and are amortized to income on the same basis and over the same periods as the related capital assets are amortized or written off.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2002
(in thousands of dollars)

2. Significant Accounting Policies (continued):

(c) Management estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities at the date of the financial statements. Despite the use of the Corporation's best estimates, it is possible that the amounts for the following balance sheet items and related expenses could change materially in the near term: liabilities for workers' compensation benefits, deferred pension asset, provision for other non-pension employee future benefits and litigation.

(d) Fair values:

The fair values of financial instruments are determined as follows:

- Current portion of provision for restructuring - using cash flows of estimated future payments without discounting.
- Provision for restructuring - using discounted cash flows of estimated future payments based on current interest rates.
- Provision for other non-pension employee future benefits - using an actuarial valuation.
- Provision for workers' compensation benefits - using an actuarial valuation.
- Deferred pension asset - using an actuarial valuation.

(e) Inventory of fuel and supplies:

Inventories are valued at the lower of cost and replacement cost. Cost is determined on a weighted-average basis.

(f) Capital assets and amortization:

Capital assets are carried at cost less accumulated amortization. Amortization is calculated at rates sufficient to write off capital assets over their estimated useful lives generally on a straight-line basis. The rates for significant classes of capital assets are as follows:

Capital Asset	Rate
Vessel	5%
Terminal properties	2.5%
Equipment	10%, 12.5% and 25%

The Corporation will generally recognize a gain or loss on the disposal of assets. Net proceeds are applied against the operating funding requirements in the period of disposition.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2002

(in thousands of dollars)

2. Significant Accounting Policies (continued):

(g) Employee future benefits:

The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets, as the benefits accrue to employees. The Corporation has adopted the following policies:

- The cost of pensions is actuarially determined using the projected benefits method pro rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at market related value. The discount rate used to calculate the interest cost on the accrued benefit obligation is the long-term market rate at the measurement date. Current service costs are included in wages and benefits. Actuarial gains and losses and plan amendments are amortized over the estimated average remaining service period of active employees.
- Marine Atlantic Inc. is a self-insured employer and is accountable for workers' compensation liabilities incurred. The cost of workers' compensation liabilities are actuarially determined using the net present value of liabilities for work-related injuries of current and former employees when awards are approved by the Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador, Workplace Health, Safety and Compensation Commission of New Brunswick, Workers' Compensation Board of Nova Scotia or Workers' Compensation Commission of Prince Edward Island or legislative amendments are made and the anticipated future costs can be reasonably calculated.

Management recognizes changes in the net present value of the liability, based on updated actuarial estimates of future costs as a result of actual experience and changes in actuarial assumptions. The cost of workers' compensation is included in wages and benefits. Adjustments arising from actuarial gains and losses are recognized in the year in which they occur.

- The cost of other non-pension employee future benefits is actuarially determined using management's best estimates of inflation rates for health and life insurance, salary escalation, usage rates and mortality rates. The cost of these other non-pension employee future benefits is included in wages and benefits. Adjustments arising from actuarial gains and losses and plan amendments are amortized over the estimated average remaining service period.
- Provision for restructuring:

The Corporation recognizes liabilities for termination benefits related to restructurings when the decisions were approved by the Government of Canada, and an estimate of the anticipated costs could be reasonably calculated. The anticipated costs relate to specific agreements that were reached with union groups representing most employees and to benefits offered to other employees. The provision includes liabilities for severance payments, interim payments to bridge employees until pension entitlement and certain long-term health care benefits. All other costs related to restructuring are expensed as incurred. Changes to these estimates are reflected in the statement of earnings in the period they are reassessed.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2002

(in thousands of dollars)

2. Significant Accounting Policies (continued):

(h) Vessel spare parts:

The Corporation maintains spare parts for vessels in service. The cost of spare parts is charged to operations when the spare parts are acquired.

(i) Foreign currency translation:

Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities, revenues and expenses are translated using exchange rates in effect at the date of the transaction. Commitments and contingencies denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. All exchange gains and losses are included in the determination of net earnings for the year.

Foreign exchange risk arises due to fluctuations in foreign currency rates. The Corporation does not manage this risk through the use of hedging strategies.

3. Accounts Receivable:

Accounts receivable are comprised of the following:

	2002	2001
Trade receivables	\$ 2,864	\$ 2,958
Other receivables	1,474	2,002
	<u>\$ 4,338</u>	<u>\$ 4,960</u>

The Corporation provides services to numerous customers. However, 5 customers represent 41% of the trade receivables (2001 - 5 customers represented 43% of the trade receivables). The carrying value of accounts receivable approximates its fair value.

4. Capital Assets:

	2002			2001		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vessels	\$ 370,600	\$ 217,668	\$ 152,932	\$ 369,231	\$ 199,360	\$ 169,871
Terminal Properties	82,903	30,401	52,502	84,987	30,680	54,307
Equipment	14,999	12,097	2,902	13,789	11,498	2,291
	<u>\$ 468,502</u>	<u>\$ 260,166</u>	<u>\$ 208,336</u>	<u>\$ 468,007</u>	<u>\$ 241,538</u>	<u>\$ 226,469</u>

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2002

(in thousands of dollars)

5. Pension Plans:

The Corporation maintains, through a trustee, a defined benefit pension plan covering substantially all of its employees plus an unfunded supplementary retirement arrangement for senior managers hired prior to March 1, 2001. Benefits generally are based on employees' length of service and rate of pay. The present values of pension plan benefits and current pension expense are independently determined by the Corporation's actuary based on assumptions provided by management. The last actuarial valuation as at December 31, 2000 extrapolated to September 30, 2002, identified a net deficit for the pension plan and for the supplementary retirement arrangement.

The significant actuarial assumptions adopted in measuring the Corporation pension obligations are a discount rate of 6.50% (2001 - 6.75%), an expected long term rate of return on plan assets of 7% (2001 - 7%) and wage increases of 3.25% plus merit increases (2001 - 3.5% plus merit increases). During 2002 (2001 - nil), the Corporation was not required to make contributions for current service.

The Corporation's pension costs and obligations as at December 31 consist of:

	2002		2001	
	Pension Plan	Supplementary Retirement Arrangement	Total	
Pension fund assets (market related value)	\$ 399,110	\$ -	\$ 399,110	\$ 410,617
Pension obligations (actuarial value)	409,785	1,343	411,128	414,481
Deficit	(10,675)	(1,343)	(12,018)	(3,864)
Deferred pension asset, net of valuation allowance	48,292	(1,343)	46,949	48,906
Pension contributions - employer	-	88	88	67
Pension contributions - employees	2,202	-	2,202	1,834
Pension expense (income)	1,956	89	2,045	(1,167)
Benefits paid	25,964	81	26,045	25,240
Determination of pension (income) expense for the year is calculated as :				
Current service cost	2,737	-	2,737	3,004
Interest on pension obligations	27,270	89	27,359	25,853
Return on fund assets	(30,039)	-	(30,039)	(29,878)
Amortization of past service cost	2,366	-	2,366	852
Amortization of net actuarial loss (gain)	(378)	-	(378)	(754)
Curtailment loss (gain)	-	-	-	(189)
Valuation allowance (other)	-	-	-	(55)
Pension expense (income)	\$ 1,956	\$ 89	\$ 2,045	\$ (1,167)

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2002

(in thousands of dollars)

6. Payable to Government of Canada:

Appropriations received from the Government of Canada were used as follows:

	2002	2001
Payable to Government of Canada, beginning of year	\$ (5,945)	\$ (1,392)
Cash received during the year:		
Government appropriations	(39,127)	(64,497)
Paid and accrued for:		
Operations	36,660	32,403
Restructuring costs	3,943	4,615
Capital	3,403	22,926
Payable to Government of Canada, end of year	\$ (1,066)	\$ (5,945)

During 2000, the Corporation received authority to purchase a ferry at a cost of up to \$86,250. The Government of Canada financed the cost of this vessel. The financing arrangement requires Marine Atlantic Inc. to reduce its future requirements for government funding by \$9,940 each year, over a 10 year period with an additional \$12,000 at the end of the tenth year. This reduction of future funding represents a principal component and financing charges at an imputed interest rate of 6.67%. If Marine Atlantic Inc. is unable to fully absorb the reduced funding, the arrangement requires Transport Canada to fund any shortfalls from its appropriations.

7. Discontinued Operation:

During 1999, the Corporation sold the assets, terminated all employees and closed the Newfoundland Dockyard Corporation. Marine Atlantic Inc. has assumed all outstanding liabilities of Newfoundland Dockyard Corporation totaling \$198 (2001 - \$395).

There is a windup excess resulting from the termination of the pension plan and this excess will be shared with the former employees and pensioners. While agreement in principle has been reached on this matter, regulatory approvals are required to effect this distribution. Newfoundland Dockyard Corporation's share of this distribution cannot be measured at this time. Any gain will be recognized in the period when final regulatory approval is received.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2002
(in thousands of dollars)

8. Provision for Restructuring:

On April 1, 1997, Marine Atlantic Inc. transferred the Bay of Fundy and the Newfoundland and Labrador Coastal services to others and on May 31, 1997, closed the New Brunswick to Prince Edward Island service. Funding of costs related to these service divestitures is governed by agreements with the Government of Canada, subject to parliamentary approval.

Management's estimate of the remaining liabilities associated with restructuring at December 31 including current and non-current amounts is:

	2002	2001
Provision for restructuring	\$ 8,348	\$ 12,330
Less current portion	3,039	4,190
Non-current portion	\$ 5,309	\$ 8,140

The Corporation's estimate of employee termination benefits is based upon special termination agreements with unionized employees which cover most of the employee groups affected by the transferred and closed services, and a separate termination benefit program for other employees. The statement of earnings includes a charge of \$244 (2001 - \$892) for restructuring costs related to updated estimates based on actual experience and interest impacts of discounting. The Corporation used an average interest rate assumption of 3.70% (2001 - 4.10%) as the discount factor for the non-current portion of the liability.

9. Provision for Workers' Compensation:

The Corporation's provision for workers' compensation represents the unfunded liability for the costs of benefits specified and administered by the Workplace Health, Safety and Compensation Commission of Newfoundland and Labrador, Workplace Health, Safety and Compensation Commission of New Brunswick, Workers' Compensation Board of Nova Scotia and Workers' Compensation Commission of Prince Edward Island for work related injuries of current and former employees. The actuarially determined liability consists of an obligation for known awarded disability and survivor pensions; an obligation for all other potential future awards for past claims and other costs consisting of health benefits, health care expenses and lump-sum impairment awards paid to employees or their beneficiaries on account of accidents that occurred in the past. These amounts are presented on a net present value basis taking into account inflation rates, interest rates, mortality rates and aggregate claim projections for incidents which have occurred. An actuarial valuation was obtained as of December 31, 2001, projected to the measurement date of September 30, 2002. The statement of earnings includes a charge of \$1,452 (2001 - \$1,423) for the cost of accidents that occurred in the year, interest charged on the workers compensation obligation, administered costs and changes in actuarial assumptions.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2002
(in thousands of dollars)

9. Provision for Workers' Compensation (continued):

The Corporation's workers' compensation costs and obligations at December 31 consist of:

	2002	2001
Workers' compensation obligations (actuarial value)	\$ 13,320	\$ 13,348
Less: current portion	1,431	1,359
Non-current portion	11,889	11,989
Workers' compensation expense	1,452	1,423
Workers' compensation payments	\$ 1,480	\$ 1,397
Weighted Average Assumptions		
	2002	2001
Discount rate	6.5 %	6.75 %
Increase in average industrial wage	3.5 %	3.5 %
Health care cost increases	4.0 %	4.0 %

10. Provision for Other Non-Pension Employee Future Benefits:

The Corporation provides life insurance and health care benefits to retirees. The present value of this unfunded benefit plan for current and future retirees is determined by an actuary on the basis of management assumptions. An actuarial valuation was obtained as of December 31, 2001, projected to the measurement date of September 30, 2002. The statement of earnings includes a charge of \$1,862 (2001 - \$1,158) for the cost of other non-pension employee future benefits in the year and changes in management's estimates.

The Corporation's provision for other non-pension employee future benefits costs and obligations at December 31 consist of:

	2002	2001
Other non-pension employee future benefits	\$ 15,810	\$ 14,468
Less: current portion	493	159
Non-current portion	15,317	14,309
Other non-pension employee future benefits expense	1,862	1,158
Other non-pension employee future benefits payments	\$ 520	\$ 159
Non-pension Assumptions		
	2002	2001
Discount rate	6.5 %	6.75 %
Rate of compensation increase	3.25 % + merit	3.5 % + merit

The significant management assumptions adopted in the calculation of the liability include an interest rate for discounting and a mortality rate. For measurement purposes an 8.1% (2001 - 6.2%) annual rate of increase in the per capita cost of health care benefits was assumed for 2002. The rate of increase was assumed to decrease gradually to 4.82% for 2011 and remain at that level thereafter.

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 2002
(in thousands of dollars)

11. Share Capital:

The authorized share capital of the Corporation is comprised of an unlimited number of common shares of no par value. As at December 31, 2002, 517,061 (2001 - 517,061) shares at \$.50 (2001 - \$.50) per share have been issued and fully paid.

12. Related Party Transactions:

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. In addition to these transactions, the Government of Canada provides funding to the Corporation as described in note 2 (b).

13. Commitments and Contingencies:

- (a) The total amount required to complete contracted capital assets under construction at December 31, 2002 is \$995 (2001 - \$79).
- (b) The Corporation leases certain properties. The minimum annual lease payments are as follows: 2003 - \$174; 2004 - \$163; 2005 - \$156; 2006 - \$7; 2007 and beyond - nil.
- (c) The Corporation has entered into a contract to purchase refined oil products from a Canadian supplier. The contract extends to September 2005 and is based on market prices in Canadian currency at the time of delivery.
- (d) In connection with its operations, the Corporation is the claimant or defendant or otherwise involved in pending claims and lawsuits. The Corporation is in receipt of claims estimated at \$4,688 (2001 - \$3,521) (excluding note 13 (f)). Management has recognized an estimate of the liability and does not foresee this being materially higher in the near term.
- (e) The Corporation's bank has provided a letter of credit in favor of the Workplace Health, Safety and Compensation Commission of New Brunswick to guarantee payment of future liabilities in the amount of \$4,200 (2001 - \$4,200).
- (f) The Corporation has provided a letter of guarantee in the total amount of \$1,347 (in 2001 a letter of guarantee in the amount of \$1,078), to a creditor of a charter company. The guarantee was given to obtain the release of a vessel of the Corporation from arrest, which occurred when the company that had the vessel under charter went bankrupt. The Corporation has guaranteed to pay the creditor certain claims when and if they are deemed by the courts to be valid. Such costs will be included in operating expenses when reasonable estimates can be made.

14. Restatement of 2001 figures:

Certain of the 2001 figures have been reclassified to conform to the presentation adopted in 2002.



**National
Arts
Centre
Corporation**



Management Responsibilities

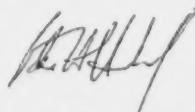
The Board of Trustees, which is responsible for, among other things, the financial statements of the Corporation, delegates to Management the responsibility for the preparation of the financial statements and the annual report. Responsibility for their review is that of the Finance and Audit Committee of the Board of Trustees. The financial statements were prepared by Management in accordance with Canadian generally accepted accounting principles and include estimates based on Management's experience and judgement. The financial statements have been approved by the Board of Trustees on the recommendation of the Finance and Audit Committee. Other financial and operating information appearing in this annual report is consistent with that contained in the financial statements.

Management maintains books and records, financial and management control and information systems designed in such a manner as to provide a reasonable assurance that reliable and accurate information is produced on a timely basis and that the transactions are in accordance with the *National Arts Centre Act* and the by-laws of the Corporation.

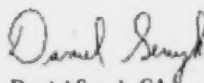
The Board of Trustees of the Corporation is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control, and exercises this responsibility

through the Finance and Audit Committee. The Finance and Audit Committee discharges the responsibilities conferred upon it by the Board of Trustees, and meets on a regular basis with Management, and with the Auditor General of Canada, who has unrestricted access to the Committee.

The Auditor General of Canada conducts an independent audit of the complete financial statements of the Corporation in accordance with Canadian generally accepted auditing standards and reports on the results of that audit to the Chair of the Board of Trustees of the National Arts Centre Corporation on an annual basis.



Peter A. Herrndorf, O.C.
President and Chief Executive Officer



Daniel Senyk, CA
Chief Financial Officer

October 25, 2002



Auditor's report

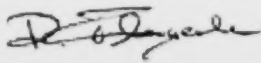
To the Chair of the Board of Trustees of the National Arts Centre Corporation

I have audited the balance sheet of the National Arts Centre Corporation as at August 31, 2002 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles

used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at August 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Richard Flageole, FCA
*Assistant Auditor General
for the Auditor General of Canada*

Ottawa, Canada
October 25, 2002

Balance Sheet
As at August 31

	2002 \$	2001 \$
Assets		
Current		
Cash	6,893,605	1,276,100
Short-term investments (Note 3)	11,687,848	9,389,151
Accounts receivable	2,053,133	1,863,632
Restricted cash and investments (Note 4)	73,178	69,546
Inventories	388,748	332,539
Programmes in progress	1,765,812	1,551,744
Prepaid expenses	581,721	661,245
	<u>23,444,045</u>	<u>15,143,957</u>
Investments (Note 5)	2,000,000	—
Capital assets (Note 6)	<u>17,210,407</u>	<u>16,874,221</u>
	<u>42,654,452</u>	<u>32,018,178</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	6,214,651	5,340,216
Deferred revenues and parliamentary appropriations (Note 7)	<u>16,326,771</u>	<u>7,020,522</u>
	<u>22,541,422</u>	<u>12,360,738</u>
Deferred contributions (Note 8)	39,903	41,271
Deferred capital funding (Note 9)	17,210,407	16,874,221
Long-term portion of provision for employee severance benefits (Note 10)	<u>1,718,415</u>	<u>1,685,950</u>
	<u>41,510,147</u>	<u>30,962,180</u>
Endowment Fund (Note 11)	33,275	33,275
Equity of Canada		
Accumulated surplus	<u>1,111,030</u>	<u>1,022,723</u>
	<u>42,654,452</u>	<u>32,018,178</u>

Contingencies and commitments (Notes 15 and 16)

The accompanying notes and schedules form an integral part of the financial statements.

Approved by the Board of Trustees:

David A. R. Keighley

Chair

James O'Sullivan

Chair of the Finance and Audit Committee

Statement of Operations and Equity
For the year ended August 31

	2002 \$	2001 \$
Revenues		
Commercial operations (Schedule 1)	11,236,268	11,646,316
Programming (Schedule 2)	9,974,073	9,913,541
National Arts Centre Foundation (Note 12)	2,850,000	1,125,000
Facility fees	563,492	561,421
Fundraising	—	1,831,918
Investments and other	581,788	1,061,821
	<u>25,205,621</u>	<u>26,140,017</u>
Parliamentary appropriations (Note 13)	25,665,004	25,231,398
	<u>50,870,625</u>	<u>51,371,415</u>
Expenses		
Commercial operations (Schedule 1)	7,676,897	7,868,645
Programming (Schedule 2)	26,332,947	25,543,108
Fundraising and development	1,650,226	1,402,742
Building operations	9,206,589	9,970,475
Administration and other	4,411,537	4,670,060
Information technology	1,504,122	1,754,848
	<u>50,782,318</u>	<u>51,209,878</u>
Net results of operations	<u>88,307</u>	<u>161,537</u>
Equity of Canada		
Equity - beginning of year	1,022,723	861,186
Equity - end of year	<u>1,111,030</u>	<u>1,022,723</u>

The accompanying notes and schedules form an integral part of the financial statements.

Statement of Cash Flows
For the year ended August 31

	2002 \$	2001 \$
Operating activities		
Net results of operations	88,307	161,537
Item not affecting cash and investments		
Amortization	2,912,111	2,951,362
	<u>3,000,418</u>	<u>3,112,899</u>
Changes in non-cash operating assets and liabilities	9,800,430	1,160,658
Changes in deferred contributions	(1,368)	(136,302)
Changes in deferred capital funding	336,186	(11,845)
Changes in long-term portion of provision for employee severance benefits	32,465	346,578
Cash flows provided by operating activities	<u>13,168,131</u>	<u>4,471,988</u>
Investing activities		
Investments	(2,000,000)	—
Additions to capital assets	(3,248,297)	(2,939,517)
Changes to restricted cash and investments	(3,632)	136,369
Cash flows used for investing activities	<u>(5,251,929)</u>	<u>(2,803,148)</u>
Increase in cash position	7,916,202	1,668,840
Cash position at beginning of year	<u>10,665,251</u>	<u>8,996,411</u>
Cash position at end of year	<u>18,581,453</u>	<u>10,665,251</u>
Composed of:		
Cash	6,893,605	1,276,100
Short-term investments	11,687,848	9,389,151
	<u>18,581,453</u>	<u>10,665,251</u>
Supplementary disclosure of cash flow information		
Interest received	<u>481,706</u>	<u>544,898</u>

The accompanying notes and schedules form an integral part of the financial statements.

Notes to the Financial Statements

August 31, 2002

1. Authority, Objectives and Operations

The National Arts Centre Corporation (the "Corporation") was established in 1966 pursuant to the *National Arts Centre Act* and began operating the National Arts Centre (the "Centre") in 1969. The Corporation is not subject to the provisions of the *Income Tax Act*. Pursuant to Section 85 (1) of Part X of the *Financial Administration Act*, Divisions I to IV do not apply to the Corporation. The Corporation is deemed, under Section 15 of the *National Arts Centre Act*, to be a registered charity within the meaning of that expression in the *Income Tax Act*.

The objectives of the Corporation are to operate and maintain the Centre, to develop the performing arts in the National Capital Region, and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

In furtherance of its objectives, the Corporation may arrange for and sponsor performing arts activities at the Centre; encourage and assist in the development of performing arts companies resident at the Centre; arrange for or sponsor radio and television broadcasts and the screening of films in the Centre; provide accommodation at the Centre, on such terms and conditions as the Corporation may fix, for national and local organizations whose objectives include the development and encouragement of the performing arts in Canada; and, at the request of the Government of Canada or the Canada Council, arrange for performances elsewhere in Canada by performing arts companies, whether resident or non-resident in Canada, and arrange for performances outside Canada by performing arts companies resident in Canada.

2. Significant Accounting Policies

(a) Short-term and restricted investments

Short-term and restricted investments are valued at the lower of cost and market value.

(b) Parliamentary appropriations

The Government of Canada provides funding to the Corporation. The portion of the parliamentary appropriations used to purchase depreciable capital assets is recorded as deferred capital funding and amortized to revenue on the same basis and over the same periods as the related capital assets. Parliamentary appropriations approved and received for specific capital and operating purposes which exceed related expenses for the year are deferred and recognized as revenue when related expenses are incurred. The remaining portion of the appropriations is recognized as revenue on the statement of operations.

The parliamentary appropriations approved for the period from April 1 to August 31 are in respect of the Government of Canada's fiscal year ending on March 31 of the following year. Accordingly, the portion of the amounts received to August 31, which is in excess of 5/12ths of the appropriations, is recorded as deferred revenue. Similarly, the portion of the 5/12ths of the appropriations not received by August 31 is recorded as a receivable.

(c) Inventories

Inventories are valued at cost for restaurant supplies, food and beverages.

(d) Programmes in progress

Direct costs, including advances to performing arts companies and artists related to programmes (performances) that will be held after the fiscal year-end, are deferred, and are charged to expenses in the year in which the programmes take place.

(e) Investments

Investments are intended to be held to maturity and are reported at cost.

(f) Capital assets

Capital assets are recorded at cost net of accumulated amortization. Amortization is calculated using the straight-line method, over the estimated useful lives of the assets as follows:

Building	40 years
Building improvements	7 to 10 years
Equipment	2 to 10 years
Computer software and hardware	3 to 5 years

(g) Deferred revenue

Funds received in return for future services are deferred. Revenue is recognized in the year that the services are provided.

(h) Contributions

The Corporation follows the deferral method of accounting for contributions. Contributions externally restricted, and related investment income, are deferred and recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received.

Donations in kind are recorded at their estimated fair market value when they are received. Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(i) Operating expenses

Expenses relating to commercial operations, programming, development and fundraising do not include costs relating to building and equipment maintenance, and administrative services.

(j) Employee future benefits

(i) Pension plan

Employees of the Corporation participate in the Public Service Superannuation Plan, administered by the Government of Canada. Contributions to the Plan are required by both the employees and the Corporation. The Corporation's contribution is 2.14 times the employees' share. The Treasury Board of Canada sets the required contributions to the Plan. These contributions represent the total pension obligation of the Corporation. The Corporation is not required to make contributions with respect to employees for actuarial deficiencies of the Public Service Superannuation Account.

(ii) Employee severance benefits

Employees of the Corporation are entitled to specified benefits on termination as provided for under their respective contracts and conditions of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

3. Short-Term Investments

The Corporation's policy is to invest temporary excess cash in short-term deposit certificates, bonds, and commercial paper with Canadian financial institutions. The average yield of the portfolio was 3.77% for the year ended August 31, 2002 (5.20% in 2001). All short-term investments are rated "A" or "A1/R1" or better by a recognized bond rating agency. The fair value of short-term investments approximates the book value due to their impending maturity.

4. Restricted Cash and Investments

Restricted cash and investments arise from contributions received from individuals and corporate entities for a specified purpose.

5. Investments

During the year the Corporation determined that its cash flows allowed it to invest cash in longer-term deposit certificates, bonds, and commercial paper with Canadian financial institutions in order to improve yields for financing performing arts programmes and the operation of the Centre. The average yield of the portfolio was 4.98% for the year ended August 31, 2002. All investments are rated "A" or "A1/R1" or better by a recognized bond rating agency.

6. Capital Assets

	Cost	2002 Accumulated amortization	Net book value	2001 Net book value
Land	\$ 1	\$ —	\$ 1	\$ 1
Building	46,400,000	38,553,872	7,846,128	9,008,550
Building improvements	31,338,117	25,389,571	5,948,546	5,819,200
Equipment	6,129,515	4,996,223	1,133,292	1,213,137
Computer software and hardware	2,081,608	1,766,362	315,246	558,750
Assets under construction	1,967,194	—	1,967,194	274,583
	<u>\$ 87,916,435</u>	<u>\$ 70,706,028</u>	<u>\$ 17,210,407</u>	<u>\$ 16,874,221</u>

7. Deferred Revenues and Parliamentary Appropriations

Deferred revenues represent amounts received from the Corporation's box office for programmes not yet presented and other amounts received in advance of services rendered. Deferred parliamentary appropriations represent approved parliamentary appropriations received for work not yet completed or received in advance. Information on the deferred revenues and parliamentary appropriations is as follows:

	2002	2001
Advanced sales - programming	\$ 5,141,575	\$ 5,315,545
Revenues from commercial operations and other	1,046,956	1,071,716
Appropriations received for the next fiscal year	4,138,000	—
Unused appropriations received for building refurbishment	2,002,073	633,261
Unused appropriations received for specific purposes	3,998,167	—
Balance at end of year	\$ 16,326,771	\$ 7,020,522

8. Deferred Contributions

Deferred Contributions represent amounts held for the National Arts Centre Orchestra Trust Fund. Changes in the deferred contributions balance are as follows:

	2002	2001
Balance at beginning of year	\$ 41,271	\$ 177,573
Interest income	3,232	4,721
Donations	8,850	10,573
Funds directed by donor to NAC Foundation	—	(51,271)
Amount recognized as revenue on the statement of operations	—	(87,825)
Distributions to NACO Bursary recipients	(13,450)	(12,500)
Balance at end of year	\$ 39,903	\$ 41,271

9. Deferred Capital Funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations used to purchase depreciable capital assets.

Changes in the deferred capital funding balance are as follows:

	2002	2001
Balance at beginning of year	\$ 16,874,221	\$16,886,066
Appropriations used to purchase depreciable capital assets	3,248,297	2,939,517
Amortization	(2,912,111)	(2,951,362)
Balance at end of year	\$ 17,210,407	\$16,874,221

10. Employee Future Benefits

(i) Pension plan

The Public Service Superannuation Plan required the Corporation to contribute at a rate of 2.14 times the employees contribution (2001 - 2.14). The Corporation's contribution to the plan during the year was \$1,009,579 (2001 - \$1,021,102).

(ii) Employee severance benefits

The Corporation provides severance benefits to its employees. This benefit plan is not pre-funded and has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information on the employee severance benefits is as follows:

	2002	2001
Balance at beginning of year	\$ 1,868,488	\$ 1,502,815
Expense for the year	314,753	438,000
Benefits paid during the year	(81,957)	(72,327)
Balance at end of year	\$ 2,101,284	\$ 1,868,488
Short-term portion	\$ 382,869	\$ 182,538
Long-term portion	1,718,415	1,685,950
	\$ 2,101,284	\$ 1,868,488

11. Endowment Fund

The initial capital of \$33,275 for the National Arts Centre Orchestra Trust Fund is subject to an externally imposed restriction stipulating that the original capital be maintained permanently. The interest earned during the year of \$1,576 (2001 - \$1,802) is included in deferred contributions.

12. The National Arts Centre Foundation

The National Arts Centre Foundation (the "Foundation") was incorporated under the *Canada Corporations Act* in July 2000 and received its registered charitable status under the *Income Tax Act* in August 2000. This is a separate entity from the Corporation and all funds raised are used for the priorities of the Corporation, as determined between the Corporation and Foundation from time to time.

The Foundation raises funds from patrons and from the community. The voting members of the Foundation are the current Corporation Board of Trustees. The Board of Directors of the Foundation is elected by the voting members of the Foundation. The financial position and results of operations of the Foundation have been audited and have not been consolidated in the Corporation's financial statements. All of the direct expenses related to the operation of the Foundation to August 31, 2002, with the exception of legal, audit and insurance expenses, have been reported in the statement of operations and equity of the Corporation as Fundraising and development expenses. The distributed amounts to the Corporation by the Foundation are recorded as National Arts Centre Foundation revenues in the Corporation's statement of operations and equity. The financial statements of the Foundation are available upon request.

The financial position and the results of operations of the Foundation as at August 31, 2002 for the period then ended are as follows:

Financial position	2002	2001
Total assets	\$ 1,806,985	\$ 1,041,651
Total liabilities	683,703	137,315
Total net assets *	\$ 1,123,282	\$ 904,336

* All of the Foundation's net assets must be provided for the sole use of the National Arts Centre Corporation. An amount of \$140,963 (2001 - \$121,989) of the Foundation's net assets is subject to donor imposed restrictions that it be maintained permanently in the Foundation and that the related investment revenue be used for the benefit of the National Arts Centre's music programming and youth and education programmes.

Results of operations	2002	2001
Total revenues	\$ 3,087,692	\$ 1,047,537
Total expenses	18,746	18,201
Total distributions to the National Arts Centre **	2,850,000	1,125,000
Excess (Deficiency) of revenues over distributions and expenses	\$ 218,946	\$ (95,664)

** The distribution to the Corporation by the Foundation was made in accordance with the restrictions approved by the Foundation's Board of Directors and supported Music, English Theatre, French Theatre, Dance, community programming, the Fourth Stage, Live Rush, programming aimed at youth, educational activities and other initiatives of the Corporation at the Centre and elsewhere.

13. Parliamentary Appropriations

	2002	2001
Main Estimates amount provided for operating and capital expenditures	\$ 24,304,168	\$22,507,250
Supplementary estimates	7,064,000	3,345,564
Appropriations approved	31,368,168	25,852,814
Portion of parliamentary appropriations deferred for future projects	(5,366,978)	(633,261)
Appropriation used to purchase depreciable capital assets	(3,248,297)	(2,939,517)
Amortization of deferred capital funding	2,912,111	2,951,362
Parliamentary appropriations	\$ 25,665,004	\$25,231,398

14. Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

15. Contingencies

The Corporation is the claimant or defendant in certain pending claims and lawsuits. In management's opinion, the outcome of these actions is not likely to result in any material amounts. The Corporation intends to vigorously defend these suits and claims.

16. Commitments

As at August 31, 2002, there remains approximately \$1,144,000 (\$2,097,000 in 2001) to be paid pursuant to agreements for information technology, telephony services and leased vehicles. The future minimum payments are as follows:

2002 — 03	1,086,000
2003 — 04	53,000
2004 — 05	5,000
2005 — 06	—
2006 — 07	—

17. Comparative Figures

Certain figures for 2001 have been reclassified to conform to the presentation adopted this year.

Schedule 1
Schedule of revenues and expenses
Commercial Operations
For the year ended August 31

	Revenues	2002 Expenses	Net
Restaurants	\$ 6,099,863	\$ 5,940,223	\$ 159,640
Parking Services	3,367,262	654,415	2,712,847
Rental of Halls	1,769,143	1,082,259	686,884
	<u>\$ 11,236,268</u>	<u>\$ 7,676,897</u>	<u>\$ 3,559,371</u>

	Revenues	2001 Expenses	Net
Restaurants	\$ 6,449,686	\$ 5,990,131	\$ 459,555
Parking Services	3,103,814	602,535	2,501,279
Rental of Halls	2,092,816	1,275,979	816,837
	<u>\$ 11,646,316</u>	<u>\$ 7,868,645</u>	<u>\$ 3,777,671</u>

Schedule 2
Schedule of revenues and expenses
Programming
For the year ended August 31

	2002	2001
Revenues		
Music	\$ 4,247,096	\$ 4,742,082
Dance	2,218,361	1,305,624
English Theatre	2,173,248	1,980,349
French Theatre	610,620	893,179
Other programmes	388,698	621,805
Programming Support	336,050	370,502
	<u>\$ 9,974,073</u>	<u>\$ 9,913,541</u>
Expenses		
Music	\$ 10,981,450	\$ 11,976,827
Dance	2,596,979	1,672,324
English Theatre	3,330,972	3,176,903
French Theatre	2,030,759	2,196,019
Other programmes	1,567,229	1,522,583
Programming Support	5,825,558	4,998,452
	<u>\$ 26,332,947</u>	<u>\$ 25,543,108</u>
Excess of expenses over revenues	<u><u>\$ 16,358,874</u></u>	<u><u>\$ 15,629,567</u></u>

Schedule 3
Schedule of expenses by type
For the year ended August 31

	2002	2001
Salaries and benefits	\$ 19,203,741	\$ 17,616,591
Artistic fees	7,411,433	7,772,558
National Arts Centre Orchestra fees	4,862,336	5,128,959
Advertising	3,294,464	3,309,604
Amortization	2,912,111	2,951,362
Contract fees	2,111,622	2,377,959
Cost of sales	1,968,261	2,136,967
Utilities	1,681,999	1,407,788
Maintenance and repairs	1,612,207	1,140,013
Payments in lieu of taxes	1,250,000	2,758,373
Promotion	478,492	703,856
Financial charges	452,176	499,172
Equipment	424,912	211,299
Office expenses	419,549	459,668
Staff travel	418,365	406,828
Professional fees	388,376	279,049
Production	341,978	421,631
Supplies	292,595	288,550
Rental of facilities	241,005	177,491
Telecommunications	223,135	210,330
Education and training	182,620	107,687
Miscellaneous	180,921	282,989
In-kind contributions of goods and services	146,007	251,605
Board expenses	143,069	142,029
Insurance	140,944	167,520
	<u>\$ 50,782,318</u>	<u>\$ 51,209,878</u>

**National
Capital
Commission**



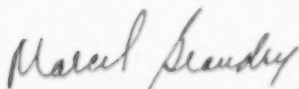
Management Responsibility for Financial Statements

The accompanying financial statements of the National Capital Commission (NCC) are the responsibility of management and have been approved by the members of the board of directors. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and, where appropriate, they include amounts that have been estimated according to management's best judgement. Financial information presented elsewhere in the Annual Report is consistent with that shown in the financial statements.

Management has developed and maintains books of accounts, records, financial and management controls and information systems. These are designed to provide reasonable assurance that the NCC's assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *National Capital Act* and the by-laws of the NCC. Internal audits are conducted to assess the performance of information systems and management controls and practices.

The NCC's external auditor, the Auditor General of Canada, has audited the financial statements and reports to the Minister of Canadian Heritage.

The members of the NCC's board of directors carry out their responsibilities for the financial statements principally through the Corporate Audit and Evaluation Committee, which consists of members of the board of directors only. This committee meets periodically with management, as well as with the internal and external auditors, to discuss the results of the audit examinations with respect to the adequacy of internal accounting controls and to review and discuss financial reporting matters. The external and internal auditors have full access to the Corporate Audit and Evaluation Committee, with or without the presence of management.



Marcel Beaudry
Chairperson



Micheline Dubé
Vice-President, Corporate and
Information Management Services





Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

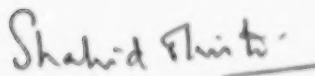
To the Minister of Canadian Heritage

I have audited the balance sheet of the National Capital Commission (NCC) as at March 31 2003 and the statements of operations, equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the NCC's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the NCC as at March 31 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the NCC that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *National Capital Act* and by-laws of the NCC.



Shahid Minto, CA

Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada

May 29, 2003, except as to note 14, which is as of June 18, 2003

NATIONAL CAPITAL COMMISSION
BALANCE SHEET AS AT MARCH 31

(THOUSANDS OF DOLLARS)
2001 2002

Assets

Current

Cash and cash equivalents (note 3)	\$38,915	\$29,377
Short-term investments (note 3)	73,554	66,079
Accounts receivable		
Federal government departments and agencies	3,303	3,490
Tenants and others	3,888	6,452
Prepaid expenses	3,820	2,774

123,480 108,172

Long-term investments (note 3)

4,786 4,516

Long-term receivables (note 4)

4,950 5,787

Capital assets (note 5)

505,820 468,619

\$639,036 \$587,094

Liabilities

Current

Accounts payable and accrued liabilities

Federal government departments and agencies	\$1,375	\$1,565
Others	12,770	19,162
Current portion of provision for environmental clean-up (note 11)	16,912	9,834
Current portion of unsettled expropriations of property and land exchanges	2,837	

33,894 30,561

Provision for environmental clean-up (note 11)

29,698 24,551

Employee future benefits (note 6)

5,167 4,725

Deferred rent inducement

3,043 3,226

Other long-term liabilities

1,921 1,948

Unsettled expropriations of property and land exchanges

350 3,180

74,073 68,191

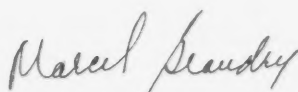
Commitments and contingencies (notes 10 and 11)

Equity of Canada 564,963 518,903

\$639,036 \$587,094

The notes are an integral part of the financial statements.

Approved by the board of directors



Marcel Beaudry
Chairperson



Irving Schwartz
Chairperson, Corporate Audit
and Evaluation Committee

NATIONAL CAPITAL COMMISSION
STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31

	(THOUSANDS OF DOLLARS)	
	2003	2002
Income		
Rental operations and easements	\$17,457	\$17,621
Net gain on disposal of capital assets	4,513	5,438
Interest	3,630	3,647
Sponsorship		
Cash	1,228	1,212
Goods and services	1,290	653
Sublease, headquarters	1,350	1,281
User access fees	1,431	1,126
Other fees and recoveries	4,145	3,629
	35,044	34,607
Cost of Operations (notes 7 and 8)		
Promoting and animating the		
National Capital Region	21,391	18,119
Planning the National Capital Region	1,785	1,394
Real asset management and development	67,640	63,039
Corporate services	23,200	27,632
	114,016	105,184
Net cost of operations before parliamentary appropriations and non-operating income	(78,972)	(70,577)
Parliamentary appropriations (note 9)	66,374	65,653
Net loss before non-operating income	(12,598)	(4,924)
Non-operating income		
Insurance proceeds		4,438
Net Loss	\$ (12,598)	\$ (486)

The notes are an integral part of the financial statements.

NATIONAL CAPITAL COMMISSION
STATEMENT OF EQUITY OF CANADA FOR THE YEAR ENDED MARCH 31

	(THOUSANDS OF DOLLARS)	
	2003	2002
Operations		
Balance at beginning of year	\$514,594	\$478,846
Net loss	(12,598)	(486)
Parliamentary appropriations to acquire and improve capital assets (note 9)	58,295	36,234
Balance at end of year	560,291	514,594
Canadiana Fund (note 1)		
Balance at beginning of year	4,309	3,950
Donations	363	359
Balance at end of year	4,672	4,309
Total balance at end of year	\$564,963	\$518,903

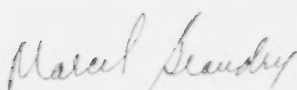
The notes are an integral part of the financial statements.

2007-2008 CAPITAL PROGRAMS
BALANCE SHEET AS AT DECEMBER 31

	(THOUSANDS OF DOLLARS)	
	2007	2006
Assets		
Current		
Accounts receivable (note 2)	109,383	109,000
Prepaid expenses and other	1,832	8,000
Accounts payable		
Accounts payable - management (contingencies)	1,309	1,492
Accounts payable - other	5,480	6,307
Prepaid income taxes	8,800	8,173
	123,480	108,172
Long-term investments (note 3)	4,786	4,516
Long-term receivables (note 4)	4,950	5,787
Capital assets (note 5)	505,820	468,619
	\$639,036	\$587,094
Liabilities		
Current		
Accounts payable and accrued liabilities		
Accounts payable (contingencies and other)	1,000	1,000
Other	1,400	1,400
Accounts payable - other	2,000	8,000
Accounts payable - other (contingencies of property and land exchanges)	1,000	1,000
	33,894	30,561
Provision for environmental clean-up (note 11)	29,698	24,551
Employee future benefits (note 6)	5,167	4,725
Deferred rent inducement	3,043	3,226
Other long-term liabilities	1,921	1,918
Unsettled expropriations of property and land exchanges	350	3,180
	74,073	68,191
Commitments and contingencies (notes 10 and 11)		
Equity of Canada	564,963	518,903
	\$639,036	\$587,094

The accompanying notes are an integral part of this financial statement.

Approved by the board of directors



Marcel Beaudry
Chairperson



Irving Schwartz
Chairperson, Corporate Audit
and Evaluation Committee

	2003	2002
Income		
Operating income	\$ 1,857	\$ 1,810
Operating income before depreciation	837	840
Interest	638	590
Other income		
Gain	1,153	1,170
Investment income	1,200	100
Other income	100	1,000
Non-operating income	133	100
Depreciation expense	(1,881)	(1,000)
	35,041	34,607
Cost of Operations (notes 7 and 8)		
Salaries and benefits		
Salaries and benefits	1,000	1,000
Salaries and benefits	1,000	1,000
Salaries and benefits	1,000	1,000
Salaries and benefits	1,000	1,000
	114,016	105,184
Net cost of operations before parliamentary appropriations and non-operating income	(78,972)	(70,577)
Operating income	1,857	1,810
Net loss before non-operating income	(12,598)	(4,924)
Operating income		
Operating income	1,857	1,810
Net Loss	\$ (12,598)	\$ (486)

	(THOUSANDS OF DOLLARS)	
	2003	2002
Operations		
Balance at beginning of year	\$417,104	\$417,104
Net loss	(103,175)	(103,175)
Contributions (payments from fund) minus disbursements (disbursements to fund)	50,291	50,291
Balance at end of year	560,291	514,594
Canadian Fund (note 1)		
Balance at beginning of year	1,204	1,204
Disbursements	(83)	(83)
Balance at end of year	4,672	4,309
Total balance at end of year	\$564,963	\$518,903

NATIONAL CAPITAL COMMISSION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31

	(THOUSANDS OF DOLLARS)	
	2003	2002
Cash flows from operating activities		
Cash receipts from parliamentary appropriations for operating activities	\$66,828	\$70,578
Cash receipts from rental operations and easements	18,452	16,685
Cash receipts from other operations	8,238	5,242
Cash paid to suppliers and employees	(97,698)	(84,709)
Interest received	3,960	3,547
Cash flows (used in) from operating activities	(220)	11,343
Cash flows from investing activities		
Purchases and improvements to capital assets	(26,916)	(35,425)
Proceeds on disposal of capital assets	5,701	4,095
Disbursements for short-term investments	(338,503)	(66,079)
Cash receipts from short-term investments	331,028	34,404
Disbursements for long-term investments	(2,580)	
Cash receipts from long-term investments	2,249	
Disbursements for environmental clean-up	(19,506)	(168)
Cash flows used in investing activities	(48,527)	(63,173)
Cash flows from financing activities		
Cash receipts from parliamentary appropriations to acquire and improve capital assets	58,295	41,233
Cash receipts for pay equity		3,688
Disbursements for pay equity	(17)	(323)
Cash receipts for Canadiana Fund	7	32
Cash flows from financing activities	58,285	44,630
Increase (Decrease) in cash and cash equivalents	9,538	(7,200)
Cash and cash equivalents at beginning of year	29,377	36,577
Cash and cash equivalents at end of year	\$38,915	\$29,377

The notes are an integral part of the financial statements.

Notes to Financial Statements

As at March 31, 2003

1. Authority and Objectives

The National Capital Commission (NCC) was established in 1959 under the terms of the *National Capital Act* (1958). The NCC is an agent Crown corporation without share capital named in Part I of Schedule III to the *Financial Administration Act* and is not subject to the requirements of the *Income Tax Act*. The objects and purposes of the NCC, as stated in the *National Capital Act* as amended in 1988, are to:

- (a) prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the

nature and character of the seat of the Government of Canada may be in accordance with its national significance; and

- (b) organize, sponsor or promote such public activities and events in the National Capital Region as will enrich the cultural and social fabric of Canada, taking into account the federal character of Canada, the equality of status of the official languages of Canada and the heritage of the people of Canada.

As well as these objectives, in 1988, the Act gave the NCC an important

additional power: to coordinate the policies and programs of the Government of Canada respecting the organization, sponsorship or promotion by departments of public activities and events related to the National Capital Region.

The NCC is also responsible for the management and maintenance of the assets of the official residences located in the National Capital Region. It created the Canadiana Fund to encourage Canadians to participate in the development of the official residences as shrines of Canadian history and achievement.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments which have a maturity of less than three months at the date of acquisition.

(b) Investments

Short-term investments are recorded at the lower of cost and market value. Long-term investments are recorded at cost and are written down to market value when the loss in value is considered to be other than a temporary decline.

(c) Capital Assets

Capital assets are generally recorded at historical cost. Property acquired for a nominal value or by donation is recorded, as transferred capital assets, at market value at time of acquisition or at the nominal value if the market value cannot reasonably be determined. Antiques or works of art donated to the Canadiana Fund and the NCC are recorded, as donated capital assets, at market value at the

time of the donation. If the market value cannot reasonably be determined, the transaction is recorded at nominal value. Improvements that extend the useful life of buildings and equipment are capitalized. Improvements and development costs relating to lands are also capitalized.

(d) Amortization

Amortization of assets in use is charged to operations in equal annual amounts based on the cost of the assets and their estimated useful life as follows:

Buildings	3, 5 and 20 years
Pathways, roadways, and bridges	25 years
Park landscaping and improvement	20 and 25 years
Leasehold improvements	Term of lease
Machinery and equipment	10 years
Office furniture	10 years
Office equipment	5 years
Vehicles	5 years
Computer and communications equipment	3 years
Antiques and works of art	Not amortized

(e) Non-Monetary Transactions

When an exchange of assets takes place and there is a change in the purpose for which the asset is held, the

transaction is recorded at the fair market value of the asset received. If there is no change in purpose for which the asset is held, the transaction is recorded at the carrying value of the asset given up. When there is an exchange of goods or services in kind, the transaction is recorded at the fair market value of the goods or services received. If the fair market value of the goods or services given up is more determinable, that fair market value is used to record the transaction.

(f) Pension Plan

NCC employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. The NCC's contributions to the plan are limited to 2.14 times the employees' contributions on account of current and certain past service. These contributions, which amounted to \$3.317 million (\$3.044 million in 2002), represent the total pension obligations of the NCC and are charged to operations on a current basis. The NCC is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

(g) Employee Termination Benefits Obligation

Severance pay generally accrues to employees over their service period and is payable on their separation or retirement. The obligation is actuarially determined using the projected benefit method prorated on services and management's best estimate of salary projection, discount rate and average remaining service period of active employees expected to receive benefits. Management recognizes changes in the liability based on actuarial results and recognizes adjustments arising from actuarial gains or losses in the year in which they occur.

(h) Workers' Compensation Obligation

The NCC assumes all risks for workers' compensation claims. The NCC recognizes the actuarial value of its workers' compensation obligation using management's best estimate and actuarial data obtained from the Workplace Safety and Insurance Board.

(i) Deferred Rent Inducement

The NCC currently leases its Headquarters office space. Moving expenses

and major leasehold improvements incurred by the lessor to accommodate NCC needs have been recorded as of the effective date of the lease and are amortized over the term of the lease.

(j) Parliamentary Appropriations

Parliamentary appropriations for operating expenditures and for grants and contributions to other levels of government and other authorities are included on the statement of operations in the year for which they were approved. Parliamentary appropriations to acquire and improve capital assets are credited to the equity of Canada as they represent the permanent investment of Canada in the NCC.

(k) Provision for Environmental Clean-up

The NCC records a provision for environmental clean-up in situations where it is obligated or is likely to be obligated to incur costs related to risk management and to the remediation and removal of contaminated material from environmentally contaminated sites, and the cost can be reasonably estimated following a

detailed environmental assessment. The cost of remediation varies depending on the land use.

(l) Unsettled Expropriations of Property

Unsettled expropriations of property are recorded on the basis of real property appraisal performed by certified appraisers and other domain experts in addition to other expenses incurred during the expropriation process.

(m) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and cost of operations during the reporting period. Provision for environmental clean-up, employee future benefits, unsettled expropriations of property and land exchanges, estimated useful lives of capital assets and contingent liabilities are the most significant items for which estimates are used. Actual results could differ from those estimates.

3. Cash and Cash Equivalents, Short-Term Investments and Long-Term Investments

The NCC's policy is to invest excess cash in guaranteed investment certificates, banker's acceptances, guaranteed notes, commercial papers, term deposits and securities of the Government of Canada or of a provincial government. These types of investments shall be purchased from a member of the Canadian Payments Association and are redeemable on short notice.

(a) Cash and Cash Equivalents

As at March 31, 2003, cash and cash equivalents include banker's acceptances which amounted to \$33.228 million (\$28.521 million in 2002) at a weighted average interest rate of 2.9 percent (2.1 percent in 2002). The fair value of cash and cash equivalents approximates the book value due to the short period to maturity of the investments.

(b) Short-Term Investments

As at March 31, 2003, short-term investments include banker's acceptances, guaranteed notes and Treasury bills which amounted to \$73.554 million (\$66.079 million in 2002) at a weighted average interest rate of 2.9 percent (2.7 percent in 2002) and

have an average term-to-maturity of four months (seven months in 2002). The fair value of short-term investments approximates the book value due to the short period to maturity of the investments.

(c) Long-Term Investments

As at March 31, 2003, long-term investments include cash, banker's acceptances and bonds of the Government of Canada and of provincial governments which amounted to \$4.786 million (\$4.516 million in 2002) at a weighted average interest rate of 9.3 percent (4.6 percent in 2002). The fair value of these investments is \$5.194 million (\$4.751 million in 2002).

(d) Segregated Funds

Cash and cash equivalents, short-term investments and long-term investments amounted to \$117.255 million (\$99.972 million in 2002). The following funds, which amounted to \$93.497 million (\$76.355 million in 2002), are segregated:

(a) cash donations received for the Canadiana Fund in the amount of \$5,233 (\$8,539 in 2002);

(b) funds of \$14.359 million (\$17.609 million in 2002) for the purpose of acquiring and trading lands along the Sparks Street Mall, in Ottawa, pursuant to governor-in-council authority;

(c) funds of \$4.829 million (\$2.145 million in 2002) for the revitalization of Sparks Street, in Ottawa;

(d) funds of \$5.430 million (\$13.822 million in 2002) for rehabilitation of the official residences;

(e) funds of \$35.704 million (\$9.771 million in 2002) for the redevelopment of LeBreton Flats; and,

(f) funds of \$33.170 million (\$32.999 million in 2002) to acquire real property or to support other major programs, as may be authorized by Treasury Board and governor-in-council. During the year, proceeds on disposal and interest revenues amounted to \$7.095 million (\$6.126 million in 2002), whereas acquisitions and disposal expenses were \$6.923 million (\$0.639 million in 2002).

4. Long-Term Receivables

The long-term receivables include an amount of \$3.150 million (\$3.327 million in 2002) representing the present value of services to be rendered to the NCC for the maintenance of parks and roadways until 2022. This account also includes \$1.800 million (\$2.460 million in 2002) for services to be rendered as betterment to NCC properties.

5. Capital Assets

(THOUSANDS OF DOLLARS) MARCH 31, 2003				(THOUSANDS OF DOLLARS) MARCH 31, 2002		
LAND	BUILDINGS, WORKS AND INFRASTRUCTURE	EQUIPMENT	TOTAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
LAND AND BUILDINGS, WORKS AND INFRASTRUCTURE ^{1,2}						
Greenbelt	\$28,754	\$36,370	\$65,124	\$25,949	\$39,175	\$39,522
Gatineau Park	19,592	16,960	36,552	10,434	26,118	26,264
Parkways	36,503	109,581	146,084	59,337	86,747	85,521
Parks	27,493	55,974	83,467	28,251	55,216	52,865
Bridges and approaches	1,741	69,918	71,659	23,718	47,941	46,211
Historical properties	158	59,176	59,334	30,973	28,361	23,344
Recreational facilities	18,331	21,191	39,522	12,975	26,547	25,899
Rental properties	57,932	49,492	107,424	30,056	77,368	82,631
Development properties	80,554	8,459	89,013	3,552	85,461	53,257
Unsettled expropriations and land exchanges	3,187		3,187		3,187	3,181
Administrative and service buildings	4,478	15,923	20,401	10,631	9,770	9,672
	278,723	443,044	721,767	235,876	485,891	448,367
Less: provision for transfers ³	(1,838)		(1,838)		(1,838)	(1,838)
	276,885	443,044	719,929	235,876	484,053	446,529
LEASEHOLD IMPROVEMENTS		16,964	16,964	4,652	12,312	12,725
EQUIPMENT						
Machinery and equipment		8,623	8,623	8,000	623	835
Office furniture and equipment		4,218	4,218	3,642	576	781
Vehicles		1,182	1,182	626	556	576
Computer and communications equipment		10,961	10,961	8,903	2,058	1,927
Antiques and works of art						
Canadiana Fund		4,667	4,667		4,667	4,301
Other		975	975		975	945
		30,626	30,626	21,171	9,455	9,365
Total	\$276,885	\$460,008	\$767,519	\$261,699	\$505,820	\$468,619

1 The total cost of land and buildings, works and infrastructure includes \$12 million of construction in progress.

2 Provision for transfers pertains to property to be transferred in accordance with agreements with the Province of Quebec. This includes lands to be given for the appurtenances to the Montmorency-Cartier Bridge and to be used as a right-of-way for Highway 550, in exchange for other lands.

3 The NCC has identified surplus lands and buildings planned for disposal. As at March 31, 2003, their net book value amounted to \$19 million.

5. Capital Assets

	THOUSANDS OF DOLLARS MARCH 31, 2003			THOUSANDS OF DOLLARS MARCH 31, 2002		
	LAND	BUILDINGS, WORKS AND INFRASTRUCTURE	EQUIPMENT	TOTAL COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
LAND AND BUILDINGS, WORKS AND INFRASTRUCTURE						
Goodwill	\$54,714	\$54,714		\$109,428	\$25,349	\$84,079
Construction		11,946		11,946	10,194	\$1,752
Intangible		28,000		28,000	26,100	\$1,900
Other		24,000		24,000	23,750	\$250
Right-of-way assets		1,200		1,200	26,000	\$1,200
Patent portfolio		100		100	10,000	\$1,000
Construction in progress		18,300		18,300	72,000	\$23,400
Leasehold improvements		18,000		18,000	22,000	\$1,000
Construction equipment		46,500	20,000	66,500	28,500	38,000
Prepaid acquisition and development		2,000		2,000	2,000	
Other non-current assets		2,000		2,000	4,000	\$1,000
	278,723	413,044		721,767	235,876	488,367
Less: liabilities for intangibles					1,000	1,000
	278,723	413,044		721,767	235,876	488,367
	276,885	413,044		719,929	235,876	484,053
						446,529
LEASEHOLD IMPROVEMENTS						
		16,964		16,964	4,652	12,712
EQUIPMENT						
Exchangeable securities			3,600	3,600	3,600	
Other exchangeable securities			1,000	1,000	1,000	
Other			100	100	100	
Leasehold improvements			100	100	100	
Construction equipment			3,000	3,000	2,000	1,000
Other			100	100	100	
			30,626	30,626	21,171	9,455
						9,455
						\$505,820
						\$468,619
Total	\$276,885	\$460,008	\$30,626	\$767,519	\$261,699	\$505,820

6. Employee Future Benefits

The NCC provides to its employees termination and workers' compensation benefits. The obligations for these benefits represent an unfunded liability.

(a) Employee Termination Benefits Obligation

Employee termination benefits are generally based on employees' length of service and rate of pay. The present values of employee termination benefits and current benefits expenses are determined by the NCC's actuary based on assumptions provided by management. The significant actuarial assumptions adopted in measuring the NCC's obligation are a discount

rate of 5.95 percent (5.68 percent in 2002), salary projection of 3 percent (3 percent in 2002) and average remaining service period of active employees expected to receive benefits of 11 years (11 years in 2002). The actuarial liability of \$3.9 million (\$3.4 million in 2002) could be materially different if assumptions on which the valuation is based vary significantly in future years. The statement of operations includes a charge of \$612,494 (\$567,464 in 2002) for the cost of these benefits in the year. The benefits paid to employees during the year were \$131,295 (\$316,701 in 2002).

(b) Workers' Compensation Obligation

The obligation excludes future administrative fees and the actuarial value presented was derived from actuarial data obtained from the Workplace Safety and Insurance Board. The obligation of \$1.3 million (\$1.3 million in 2002) could be materially different if assumptions on which the valuation is based vary significantly in future years. The statement of operations includes a charge of \$357,642 (\$190,010 in 2002) for the cost of these benefits in the year.

7. Sector Definitions and Objectives

The NCC uses four sectors to structure its activities. Short-, medium- and long-term objectives linked to the mandate and mission have been developed for each one. The following are the long-term objectives established for each sector:

Promoting and Animating the National Capital Region

To increase awareness of the Capital Region outside the National Capital Region through national marketing campaigns, communications contacts

and outreach activities, and to present the Capital to visitors as a place to experience Canadian heritage, culture and achievements through varied services, events and programs.

Planning the National Capital Region

To guide the physical development and use of federal lands, to coordinate and achieve excellence in design, and to plan development that is appropriate to the role and significance of the Capital of Canada.

Real Asset Management and Development

To manage and protect physical assets of national significance on behalf of future generations of Canadians.

Corporate Services

To promote efficient and productive use of resources through the centralized provision of corporate services to all of the business lines.

8. Cost of Operations

SUMMARY OF EXPENSES BY MAJOR CLASSIFICATION

	(THOUSANDS OF DOLLARS)	
	2003	2002
Salaries and employee benefits	\$33,445	\$31,143
Goods and services	50,393	45,776
Goods and services in kind	1,290	653
Payments in lieu of municipal taxes	11,680	12,133
Amortization	17,208	15,479
	\$114,016	\$105,184

9. Parliamentary Appropriations

	THOUSANDS OF DOLLARS	
	2003	2002
Parliamentary appropriations for operating expenditures received during the year	\$65,360	\$64,185
Parliamentary appropriations to acquire and improve capital assets received during the year	\$8,295	\$6,234
Parliamentary appropriations receivable at end of year	1,014	1,468
	\$124,669	\$101,887
Applied as follows:		
Parliamentary appropriations recorded on the Statement of Operations	\$66,374	\$65,653
Parliamentary appropriations recorded on the Statement of Equity	\$8,295	\$6,234
	\$124,669	\$101,887

10. Commitments

(a) The NCC has entered into agreements for services, leases of equipment and operating leases for office accommodations. The agreements have different termination dates, with the latest ending in 2020, and total \$156 million (\$159 million in 2002). The NCC has also privatized the management and maintenance of a portion of its lands and properties as part of the federal government's Program Review. Contracts totalling \$27.5 million (\$27.3 million in

2002) have been awarded for these functions; these contracts will terminate in 2006-07.

Minimum annual payments under these agreements for the next five years are approximately as follows:

	(thousands of dollars)
2003-04	\$ 17,863
2004-05	\$ 13,385
2005-06	\$ 10,614
2006-07	\$ 7,811
2007-08	\$ 5,753

(b) The NCC has entered into contracts for capital expenditures of approximately \$9 million (\$21 million in 2002). Payments under these contracts are expected to be made within the next five years.

11. Contingencies

(a) Claims

Claims have been made against the NCC totalling approximately \$10.3 million (\$11.0 million in 2002), excluding interest and other costs, for alleged damages and other matters. The final outcome of these claims is not determinable and, accordingly, these items are not recorded in the accounts. In the opinion of management, the position of the NCC is defensible. Settlements, if any, resulting from the resolution of these claims will be accounted for

in the year in which the liability is determined.

(b) Environmental Protection

As part of the Environmental Management Framework and the Acquisition and Disposal Program, the NCC has prioritized 1,527 property assets that qualify for environmental assessment. Following a preliminary assessment of 827 of these property assets, more detailed studies were conducted on a number of these properties to

determine the degree of remediation required. Based on the detailed studies conducted thus far, the NCC assesses the liability and the contingency for environmental clean-up at \$46.6 million (\$34.4 million in 2002) and at \$19.2 million (\$32.4 million in 2002) respectively. The contingency reflects the suspected costs or potential additional costs associated with situations where it is uncertain whether the NCC is obligated or it is unlikely that the NCC will incur full remediation costs.

6. Employee Future Benefits

The NCC provides to its employees termination and workers' compensation benefits. The obligations for these benefits represent an unfunded liability.

(a) Employee Termination Benefits Obligation

Employee termination benefits are generally based on employees' length of service and rate of pay. The present values of employee termination benefits and current benefits expenses are determined by the NCC's actuary based on assumptions provided by management. The significant actuarial assumptions adopted in measuring the NCC's obligation are a discount

rate of 5.95 percent (5.68 percent in 2002), salary projection of 3 percent (3 percent in 2002) and average remaining service period of active employees expected to receive benefits of 11 years (11 years in 2002). The actuarial liability of \$3.9 million (\$3.4 million in 2002) could be materially different if assumptions on which the valuation is based vary significantly in future years. The statement of operations includes a charge of \$612,494 (\$567,464 in 2002) for the cost of these benefits in the year. The benefits paid to employees during the year were \$131,295 (\$316,701 in 2002).

(b) Workers' Compensation Obligation

The obligation excludes future administrative fees and the actuarial value presented was derived from actuarial data obtained from the Workplace Safety and Insurance Board. The obligation of \$1.3 million (\$1.3 million in 2002) could be materially different if assumptions on which the valuation is based vary significantly in future years. The statement of operations includes a charge of \$357,642 (\$190,010 in 2002) for the cost of these benefits in the year.

7. Sector Definitions and Objectives

The NCC uses four sectors to structure its activities. Short-, medium- and long-term objectives linked to the mandate and mission have been developed for each one. The following are the long-term objectives established for each sector:

Promoting and Animating the National Capital Region

To increase awareness of the Capital Region outside the National Capital Region through national marketing campaigns, communications contacts

and outreach activities, and to present the Capital to visitors as a place to experience Canadian heritage, culture and achievements through varied services, events and programs.

Planning the National Capital Region

To guide the physical development and use of federal lands, to coordinate and achieve excellence in design, and to plan development that is appropriate to the role and significance of the Capital of Canada.

Real Asset Management and Development

To manage and protect physical assets of national significance on behalf of future generations of Canadians.

Corporate Services

To promote efficient and productive use of resources through the centralized provision of corporate services to all of the business lines.

8. Cost of Operations

SUMMARY OF EXPENSES BY MAJOR CLASSIFICATION

	THOUSANDS OF DOLLARS	
	2003	2002
General and administrative	\$33,435	\$31,141
Capital and finance	15,899	14,678
Information systems	1,208	652
Professional and technical fees	13,308	13,117
Travel costs	87,650	88,771
	\$114,016	\$105,181

9. Parliamentary Appropriations

	(THOUSANDS OF DOLLARS)	
	2002	2003
Parliamentary appropriations for operating expenditures required during the year	145,360	154,149
Parliamentary appropriations for capital expenditures required during the year	59,279	6,274
Parliamentary appropriations for interest on debt	1,014	1,411
	\$124,669	\$101,887
Applied as follows:		
Parliamentary appropriations for operating expenditures	145,360	154,149
Parliamentary appropriations for capital expenditures	59,279	6,274
	\$124,669	\$101,887

10. Commitments

(a) The NCC has entered into agreements for services, leases of equipment and operating leases for office accommodations. The agreements have different termination dates, with the latest ending in 2020, and total \$156 million (\$159 million in 2002). The NCC has also privatized the management and maintenance of a portion of its lands and properties as part of the federal government's Program Review. Contracts totalling \$27.5 million (\$27.3 million in

2002) have been awarded for these functions; these contracts will terminate in 2006-07.

Minimum annual payments under these agreements for the next five years are approximately as follows:

	2003-04
Operating leases	\$17,300
Service contracts	\$7,250
Management and maintenance contracts	\$10,000
Operating leases	\$1,000
Service contracts	\$1,000
Management and maintenance contracts	\$1,000

(b) The NCC has entered into contracts for capital expenditures of approximately \$9 million (\$21 million in 2002). Payments under these contracts are expected to be made within the next five years.

11. Contingencies

(a) Claims

Claims have been made against the NCC totalling approximately \$10.3 million (\$11.0 million in 2002), excluding interest and other costs, for alleged damages and other matters. The final outcome of these claims is not determinable and, accordingly, these items are not recorded in the accounts. In the opinion of management, the position of the NCC is defensible. Settlements, if any, resulting from the resolution of these claims will be accounted for

in the year in which the liability is determined.

(b) Environmental Protection

As part of the Environmental Management Framework and the Acquisition and Disposal Program, the NCC has prioritized 1,527 property assets that qualify for environmental assessment. Following a preliminary assessment of 827 of these property assets, more detailed studies were conducted on a number of these properties to

determine the degree of remediation required. Based on the detailed studies conducted thus far, the NCC assesses the liability and the contingency for environmental clean-up at \$46.6 million (\$34.4 million in 2002) and at \$19.2 million (\$32.4 million in 2002) respectively. The contingency reflects the suspected costs or potential additional costs associated with situations where it is uncertain whether the NCC is obligated or it is unlikely that the NCC will incur full remediation costs.

12. Related Party Transactions

The NCC is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations and is mainly financed by the Parliament of Canada.

In addition to the related party transactions described below, and those disclosed elsewhere in these financial statements, the NCC also enters into transactions with Crown entities. In the normal course of business and on

normal trade terms applicable to all individuals and enterprises, the NCC incurred expenses totalling \$8.6 million (\$8.5 million in 2002) for utilities, rental of space, asset and service purchases from other government departments and agencies, and earned revenues totalling \$7.8 million (\$7.0 million in 2002) from services rendered, rental operations and sales of assets to other government departments and agencies.

13. Fair Value of Financial Instruments

In addition to what has already been described in Note 3 relating to this topic, the fair value of accounts receivable

and accounts payable and accrued liabilities approximates the book value due to their impending maturity.

14. Subsequent Event

On June 18, 2003, the NCC received authority from the Governor in Council to acquire industrial lands on the north shore of the Ottawa River owned by George Weston Limited and Weston Inc. This site is part of the NCC's long-term strategy for

the core area of Canada's Capital Region. In the event that these lands were to be acquired, the transaction would be financed by parliamentary appropriations and would be recorded as a capital asset and a cash disbursement.

15. Comparative Figures

Certain comparative figures have been reclassified to conform with

the presentation adopted in the current year.

**National
Gallery
of Canada**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the National Gallery of Canada (the Gallery) and all information in this annual report are the responsibility of management. The financial statements include some amounts that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

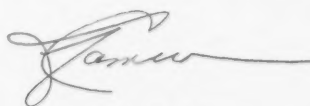
In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, proper records are maintained and transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act*, and the by-laws of the Gallery.

The Board of Trustees is responsible for ensuring that management fulfils its responsibilities for maintaining adequate control systems and the quality of financial reporting. The Audit and Finance Committee of the Board of Trustees meets regularly with management and internal and external auditors to discuss auditing, internal controls and other relevant financial matters. The Committee reviews the financial statements and presents its recommendation to the Board of Trustees. The Board of Trustees approves the financial statements.

The external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing her report thereon to the Minister of Canadian Heritage.



Pierre Théberge, O.C., C.Q.
Director



Frances J. Cameron
Deputy Director, Administration and Finance

AUDITOR'S REPORT



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

To the Minister of Canadian Heritage

I have audited the balance sheet of the National Gallery of Canada as at 31 March 2003 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Gallery's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Gallery as at 31 March 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Gallery that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Gallery.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
30 May 2003

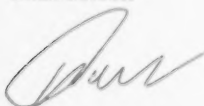
BALANCE SHEET
as at 31 March

(in thousands of dollars)	2003	2002
Assets		
Current		
Cash and short-term investments (Note 3)	\$ 7,737	\$ 7,590
Restricted cash, investments and receivable (Note 3)	5,668	8,359
Accounts receivable (Note 4)	1,123	2,279
Inventories	723	817
Prepaid expenses	1,446	1,354
	16,697	20,399
Collection (Note 5)	1	1
Capital assets (Note 6)	14,178	11,631
	\$ 30,876	\$ 32,031
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	\$ 6,159	\$ 7,543
Unused appropriations received for the purchase of objects for the Collection (Note 8)	2,461	2,942
Unused appropriations received for the purchase of capital assets (Note 9)	2,158	4,325
	10,778	14,810
Employee future benefits (Note 10)	1,992	1,749
Deferred contributions (Note 11)	822	887
Deferred capital funding (Note 12)	14,178	11,631
	27,770	29,077
Commitments (Note 14)		
Endowments		
Endowments	130	129
Equity of Canada		
Internally restricted	97	76
Unrestricted	2,879	2,749
	2,976	2,825
	\$ 30,876	\$ 32,031

The accompanying notes form an integral part of the financial statements.

Approved by the Board of Trustees:

Chairperson



Vice-Chairperson



STATEMENT OF OPERATIONS AND EQUITY
for the year ended 31 March

(in thousands of dollars)	2003	2002
Operating revenue and contributions (Schedule 1)	\$ 7,869	\$ 7,901
Expenses		
Collections and Research		
Operations	4,735	4,299
Art acquisitions (Note 5)	6,433	3,113
Total - Collections and Research	11,168	7,412
Outreach	1,535	1,058
Public Affairs	6,915	5,762
Development	3,991	3,882
Exhibitions and Collections Management	5,867	6,232
Facilities	15,623	14,449
Administration	5,650	5,556
Total expenses (Schedule 2)	50,749	44,351
Net result of operations before government funding	42,880	36,450
Parliamentary appropriations (Note 13)	43,031	36,837
Results of operations after government funding	151	387
Equity of Canada - beginning of year	2,825	2,438
Equity of Canada - end of year	\$ 2,976	\$ 2,825

Amortization (Schedule 2)

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 March

(in thousands of dollars)	2003	2002
Operating activities:		
Results of operations after government funding	\$ 151	\$ 387
Items not affecting cash and investments		
Amortization	1,910	1,796
Accrued employee severance benefits	243	111
Loss on disposal of capital assets	1	4
Net internally restricted transactions	(21)	(23)
	2,284	2,275
Decrease (increase) in non-cash working capital components	(226)	2,950
	2,058	5,225
Financing activities:		
Capital funding from the Government of Canada	4,457	3,745
Amortization of deferred capital funding	(1,910)	(1,796)
	2,547	1,949
Investing activities:		
Purchase of capital assets	(4,459)	(3,757)
Proceeds from disposal of capital assets	1	8
	(4,458)	(3,749)
Increase in cash and short-term investments during the year	147	3,425
Cash and short-term investments at beginning of year	7,590	4,165
Cash and short-term investments at end of year	\$ 7,737	\$ 7,590

The accompanying notes form an integral part of the financial statements

NOTES TO FINANCIAL STATEMENTS

31 March 2003

1. Authority, Objectives and Activities

The National Gallery of Canada (the Gallery) was established on 1 July 1990 by the *Museums Act* as a Crown corporation under Part I of Schedule III to the *Financial Administration Act*.

The Gallery's mandate as stated in the *Museums Act* is to develop, maintain and make known throughout Canada and internationally, a collection of works of art, both historic and contemporary, with special but not exclusive reference to Canada, and to further knowledge, understanding and enjoyment of art in general among all Canadians. The Gallery's operations include its affiliate, the Canadian Museum of Contemporary Photography (CMCP).

The Gallery's operations are divided into 7 mutually supportive activities which work together to meet all aspects of its mandate. These activities are:

Collections and Research

To acquire, preserve, research and record historic and contemporary works of art, both national and international, to represent Canada's visual arts heritage and to use in its programs.

Outreach

To develop new partnerships for greater access to and dissemination of the Gallery's collection, including curators-in-residence, co-acquisitions and long-term loans, as well as travelling exhibitions, new communications.

Public Affairs

To further knowledge, understanding and enjoyment of the visual arts among all Canadians and to make the collections known both in Canada and abroad.

Development

To identify new sources of funds for the Gallery and its affiliate in order to increase revenues from non-governmental sources.

Exhibitions and Collections Management

To develop a program of travelling exhibitions and to manage exhibitions and installations presented at the Gallery, and to oversee documentation of the Gallery's collections.

Facilities

To provide secure and suitable facilities for the preservation and exhibition of the national collections of art, the Library and the Archives, that are readily accessible to the public.

Administration

To provide direction, control and effective development and administration of resources.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are:

(a) Inventories

Inventories are valued at the lower of cost and net realizable value. In the case of books and publications, cost is written down over a maximum of three years to take into account obsolescence.

(b) Capital Assets

Capital assets are recorded at cost and amortized using the straight-line method over their estimated useful lives as follows:

Equipment and furniture	5 to 12 years
Leasehold improvements	25 years
Building improvements	10 to 25 years
Vehicles	5 years

The original cost of the buildings occupied by the Gallery is not shown in the financial statements. The buildings are owned by the Government of Canada.

(c) Collection

The Gallery holds a collection of works of art for the benefit of Canadians, present and future. The collection is shown as an asset at a nominal value of \$1,000 due to the practical difficulties of determining a meaningful value for these assets. Works of art purchased for the collection of the Gallery are recorded as an expense in the year of acquisition. Works of art donated to the Gallery are not recorded in the books of account.

(d) Employee Future Benefits

Pension Benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Gallery's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on multiple of the employee's required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Gallery and are charged to operations on a current basis. The Gallery is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Severance Benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as the employees render the services necessary to earn them. Management determined the accrued benefit obligation using a method based upon assumptions and estimates. These benefits represent the only obligation of the Gallery that entails settlement by the future payment.

(e) Parliamentary Appropriations

Parliamentary appropriations for operating expenditures are recognized in the fiscal year in which they are approved. Parliamentary appropriations received for the purchase of capital assets are initially recorded as unused appropriations received for the purchase of capital assets. When the purchases are made, the portion of the parliamentary appropriations used to make the purchases is recorded as deferred capital funding and amortized on the same basis and over the same periods as the related capital assets.

Parliamentary appropriations for the purchase of objects for the collection are initially recorded as unused appropriations received for the purchase of objects for the collection in the year of entitlement and are recognized in the statement of operations at the time the acquisitions are made.

(f) Contributions

The Gallery follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions and related investment income are deferred and recognized as revenue in the year in which the related expenses are incurred. Endowment contributions are recorded as endowments on the balance sheet. The investment income arising from such contributions is deferred and recognized as revenue in the year in which the related expenses are incurred.

The Board of Trustees has directed that certain unrestricted contributions and interest income arising from such contributions be internally restricted for the purpose of acquiring objects for the collection and related activities.

Contributed services are recorded at their fair value at the date they are received by the Gallery. Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, their contributed services are not recognized in these financial statements.

(g) Bookstore and Publishing

Expenses for the bookstore and publishing are included in operating expenses.

(h) Endowments

Endowments consist of restricted donations received by the Gallery. The endowment principal is required to be maintained intact. The investment income generated from endowments is treated as a deferred contribution and must be used in accordance with the various purposes established by the donors. Endowments received do not flow through the statement of operations but rather are credited to endowments directly.

(i) National Gallery of Canada Foundation

In 1997-1998, the National Gallery of Canada Foundation was incorporated under the *Canada Corporations Act*. The Foundation is a separate legal entity whose purpose is to raise funds for the sole benefit of the Gallery. The operations of the Foundation have been audited but have not been consolidated in the Gallery's financial statements.

(j) Measurement Uncertainty

The preparation of financial statements is in accordance with the Canadian generally accepted accounting principles and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the year. Employee-related liabilities and estimated useful life of capital assets are the most significant items where estimates are used. Actual results could differ from those estimated.

3. Cash and Short-Term Investments

The Gallery makes short term, low risk investments in Money Market Funds. The portfolio yielded an average return of 2.46% (2002 - 3.31%). The carrying value of these investments approximates their fair market value.

(in thousands of dollars)	2003	2002
The balances at year-end are:		
Unrestricted Cash and Short-Term Investments		
Cash	\$ 2,886	\$ 2,906
Money market investments	4,851	4,684
	\$ 7,737	\$ 7,590
Restricted Cash, Investments and Receivable:		
Unused appropriations for the purchase of objects for the collection		
Cash and money market investments	\$ 2,461	\$ (58)
Restricted receivable	—	3,000
	2,461	2,942
Unused appropriations for the purchase of capital assets		
Cash and money market investments	2,158	4,325
Deferred contributions, endowments and internally restricted funds		
Cash and money market investments	1,049	1,092
	\$ 5,668	\$ 8,359

4. Accounts Receivable

(in thousands of dollars)	2003	2002
Trade	\$ 452	\$ 598
Receivable - Government	671	1,681
	\$ 1,123	\$ 2,279

5. Collection

The Gallery has an extensive collection of visual arts, particularly Canadian art. The Gallery collection comprises some 35,800 works of art. In addition, CMCP has 160,400 pieces in its collection. The main collecting areas are:

- Canadian Art, including Inuit Art
- Contemporary Art
- American, European and Asian Art
- 20th Century Modern Art
- Photographs
- Prints and Drawings

The Gallery acquires works of art by purchase, gift and bequest. Acquisitions in the year are as follows:

(in thousands of dollars)	2003	2002
Purchase from appropriations for the purchase of objects for the collection	\$ 6,244	\$ 3,095
Purchase from deferred contributions	189	18
Total purchases	6,433	3,113
Gifts or bequests, at estimated fair market value	1,727	796
	\$ 8,160	\$ 3,909

6. Capital Assets

(in thousands of dollars)	2003			2002
	Cost	Accumulated amortization	Net book Value	Net book Value
Equipment and furniture	\$ 20,333	\$ 16,595	\$ 3,738	\$ 4,026
Leasehold improvements	4,311	1,766	2,545	2,411
Building improvements	9,768	1,965	7,803	5,069
Vehicles	205	113	92	125
	\$ 34,617	\$ 20,439	\$ 14,178	\$ 11,631

7. Accounts Payable and Accrued Liabilities

(in thousands of dollars)	2003	2002
Trade	\$ 3,835	\$ 5,164
Due to government departments and Crown corporations	260	466
Accrued salaries and benefits	2,064	1,913
	\$ 6,159	\$ 7,543

8. Unused Appropriations Received for the Purchase of Objects for the Collection

The Gallery receives a \$6,000,000 annual appropriation for the purchase of objects for the collection. The Gallery accumulates these funds, as well as the interest thereon, in a separate account which it uses to acquire, when opportunities arise, historically important, unique and high quality works that strengthen the collection.

(in thousands of dollars)	2003	2002
Balance at beginning of year	\$ 2,942	\$ 252
Parliamentary appropriation	6,000	6,000
Interest	63	85
Total available	9,005	6,337
Purchase of objects	(6,244)	(3,095)
Related acquisition costs	(300)	(300)
Balance at end of year	\$ 2,461	\$ 2,942

9. Unused Appropriations Received for the Purchase of Capital Assets

Within the Gallery's general Parliamentary appropriation for operating and capital expenditure, there are amounts that have been identified by Treasury Board as funding for projects of a capital nature. These amounts are initially credited to unused appropriation received for the purchase of capital assets and are transferred to deferred capital funding when the purchases are made.

(in thousands of dollars)	2003	2002
Balance at beginning of year	\$ 4,325	\$ 1,693
Parliamentary appropriations	2,290	6,377
Total available	6,615	8,070
Net Capital purchases	(4,457)	(3,745)
Balance at end of year	\$ 2,158	\$ 4,325

10. Employee Future Benefits

Pension Benefits

The Public Service Superannuation Plan required the Gallery to contribute at a rate of 2.14 times the employee's contribution. The Gallery's contribution to the plan during the year was \$1,661,000 (2002 - \$1,245,000).

Severance Benefits Plan

The Gallery provides severance benefits to its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan is as follows:

(in thousands of dollars)	2003	2002
Accrued benefit obligation, beginning of year	\$ 1,991	\$ 1,952
Expense for the year	383	202
Benefits paid during the year	(134)	(163)
Accrued benefit obligation, end of year	\$ 2,240	\$ 1,991
Short term portion	\$ 248	\$ 242
Long term portion	1,992	1,749
	\$ 2,240	\$ 1,991

11. Deferred Contributions

Deferred contributions represent the unrecognized portion of externally restricted contributions and investment income to be used for purchases of works of art or other specific activities such as exhibitions, publications, education programs or research as directed by the contributor.

(in thousands of dollars)	2003	2002
Balance at beginning of year	\$ 887	\$ 786
Add receipts for the year		
Interest	23	30
Gifts and bequests	249	155
	272	185
Less disbursements for the year:		
Purchase of objects for the collection	189	18
Other	148	66
	337	84
Balance at end of year	\$ 822	\$ 887

12. Deferred Capital Funding

Deferred capital funding represents the unamortized portion of parliamentary appropriations used to purchase depreciable capital assets.

(in thousands of dollars)	2003	2002
Balance at beginning of year	\$ 11,631	\$ 9,682
Appropriations received and used to purchase depreciable assets	4,457	3,745
Amortization	(1,910)	(1,796)
Balance at end of year	\$ 14,178	\$ 11,631

13. Parliamentary Appropriations

(in thousands of dollars)	2003	2002
For operating and capital expenses		
Main Estimates	\$ 35,455	\$ 33,188
Supplementary estimates	1,412	4,046
	36,867	37,234
Appropriations deferred for the purchase of depreciable capital assets	(2,290)	(6,377)
Appropriations recognized for payments in lieu of taxes	-	789
Amortization of deferred capital funding	1,910	1,796
	36,487	33,442
For the purchase of objects for the collection		
Main Estimates	3,000	3,000
Supplementary estimates	3,000	3,000
	6,000	6,000
Appropriation recognized from prior year	2,942	252
Interest income	63	85
Appropriation deferred to future years	(2,461)	(2,942)
	6,544	3,395
Parliamentary appropriations	\$ 43,031	\$ 36,837

14. Commitments

As at 31 March 2003, there remains \$25,462,000 to be paid pursuant to various agreements and standing offers. The major portion relates to the remainder of a 49 year lease of \$212,000 per year (1992 to 2041) with the National Capital Commission for the CMCP facility. This lease can be cancelled with penalty in the year 2016. The future minimum annual payments are as follows:

(in thousands of dollars)

2003-04	\$ 5,296
2004-05	4,516
2005-06	4,111
2006-07	4,166
2007 and thereafter	7,373

15. Related Party Transactions

The Gallery is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Gallery enters into transactions with these entities in the normal course of business.

16. Foundation

As at 31 March 2003, the National Gallery of Canada Foundation (Foundation) has raised \$2,566,000 in endowment funds (\$1,747,000 as at 31 March 2002). The Gallery provides the Foundation with administrative personnel and free facilities. The Foundation's direct operating expenses amounted to \$309,000 in 2003 (\$267,000 in 2002). The Gallery's contribution to these costs was \$125,000 in 2003 (\$100,000 in 2002). During the year, the Gallery received a contribution of \$226,000 from the Foundation (\$42,000 in 2002).

17. Financial Instruments

The carrying amounts of the Gallery's accounts receivable, accounts payable and accrued liabilities approximate their fair values.

18. Comparative Figures

Certain reclassifications have been made to the 2002 comparative figures to conform with the current year's presentation.

**National
Museum
of Science
and Technology**

Management's Responsibility for Financial Statements

The financial statements contained in this annual report have been prepared by Management in accordance with Canadian generally accepted accounting principles, and the integrity and objectivity of the data in these financial statements are Management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions are in accordance with the *Financial Administration Act* and regulations, as well as the *Museums Act* and the by-law of the Corporation.

The Board of Trustees is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls, and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditor and has submitted its report to the Board of Trustees. The Board of Trustees has reviewed and approved the financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the financial statements and reports to the Minister responsible for the Corporation.

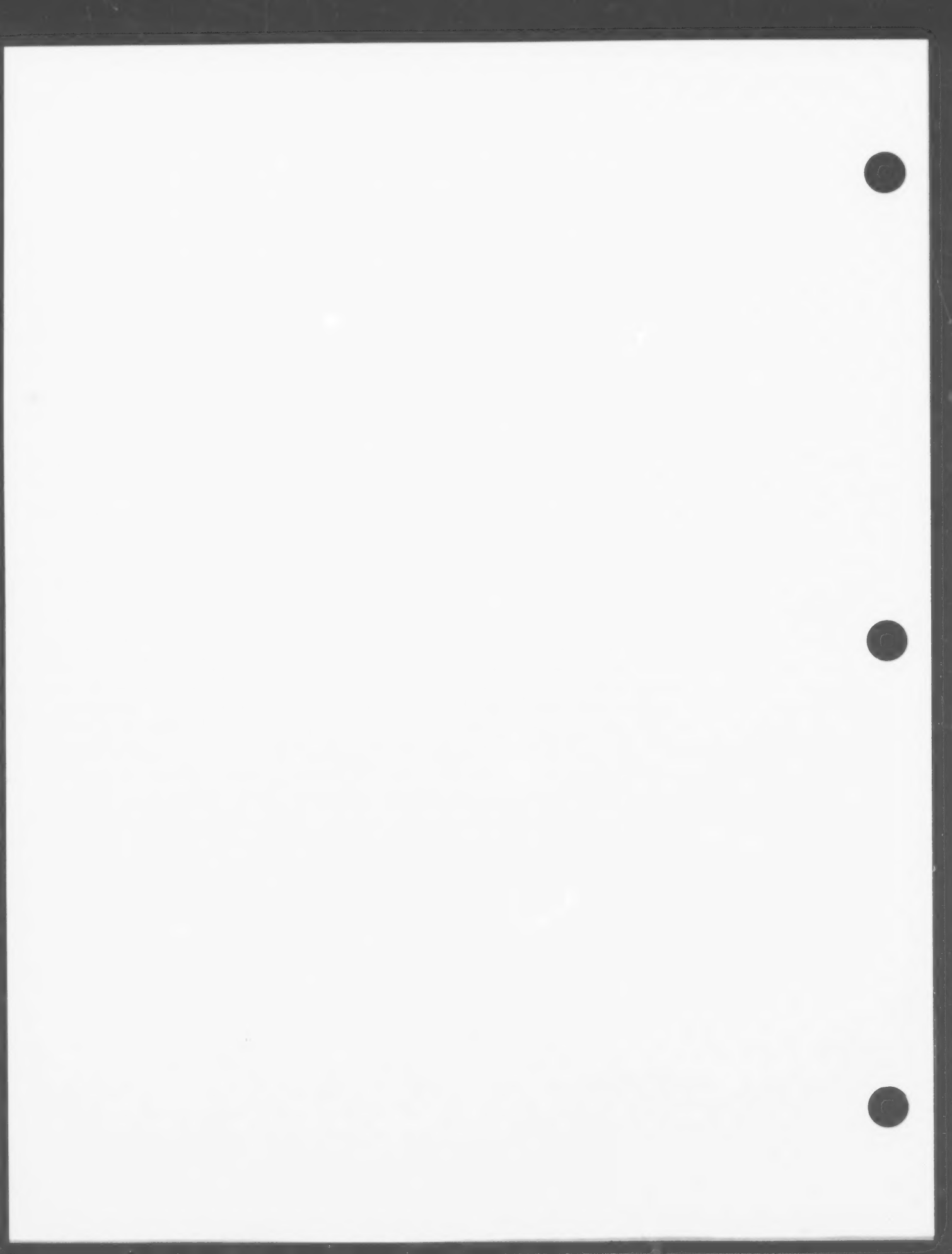


Christopher J. Terry
Chief Executive Officer



Fernand Proulx
Executive Director Finance, Administration and Facilities

May 30, 2003





Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Canadian Heritage

I have audited the balance sheet of the National Museum of Science and Technology as at March 31, 2003 and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Museums Act* and the by-laws of the Corporation.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 2003

BALANCE SHEET*as at March 31**(in thousands of dollars)***2003****2002****ASSETS****Current**

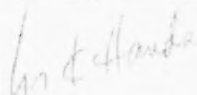
Cash and short-term investments (NOTE 3)	\$ 6,495	\$ 3,577
Accounts receivable		
Government departments	1,404	1,459
Others	364	358
Inventories	442	412
Prepaid expenses	308	409
	9,103	6,215
Restricted cash and investments	209	344
Collection (NOTE 4)	1	1
Property and equipment (NOTE 5)	10,472	9,955
	\$ 19,785	\$ 16,515

LIABILITIES AND EQUITY OF CANADA**Current**

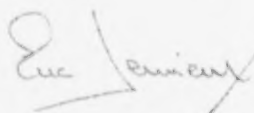
Accounts payable and accrued liabilities		
Government departments	\$ 276	\$ 133
Others	2,949	2,132
Current portion of employee future benefits	245	91
Deferred revenues	539	95
	4,009	2,451
Employee future benefits (NOTE 6)	1,470	1,394
Deferred contributions (NOTE 7)	209	344
Deferred capital funding (NOTE 8)	14,046	12,372
Equity (deficit) of Canada	51	(46)
	\$ 19,785	\$ 16,515

Commitments (NOTE 9)*The accompanying notes and schedule form an integral part of the financial statements.*

Approved by the Board of Trustees



Chairman



Chairman, Audit Committee

STATEMENT OF OPERATIONS AND EQUITY OF CANADA*for the year ended March 31**(in thousands of dollars)*

	2003	2002
REVENUES		
Admission		
Science and Technology	\$ 920	\$ 861
Aviation	459	484
Agriculture	293	308
Other	666	701
Commercial Operations	1,135	1,111
Corporate Development	719	598
Interest	167	188
Total Revenues	4,359	4,251
EXPENSES (SCHEDULE)		
Collection Management	5,106	4,885
Public Facilities		
Science and Technology	9,891	9,432
Aviation	5,302	5,361
Agriculture	2,580	2,467
Support Activities	6,373	4,856
Amortization of property and equipment	1,206	1,235
Total Expenses	30,458	28,236
Excess of Expenses over Revenues	(26,099)	(23,985)
Parliamentary Appropriations (NOTE 11)	26,196	22,416
Net Income (loss)	97	(1,569)
Equity (deficit) of Canada at the beginning of the year	(46)	1,523
Equity (deficit) of Canada at the end of the year	\$ 51	\$ (46)

The accompanying notes and schedule form an integral part of the financial statements.

STATEMENT OF CASH FLOWS*for the year ended March 31**(in thousands of dollars)*

	2003	2002
CASH FLOWS FROM OPERATIONS		
Cash received (clients)	\$ 4,030	\$ 3,658
Parliamentary Appropriations received	24,020	22,788
Cash paid (employees and suppliers)	(28 081)	(26,607)
Interest received	167	188
Total cash flows used in operating activities	136	27
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(1,723)	(2,305)
Decrease (increase) in restricted cash and investments	135	(103)
Total cash flows used in investing activities	(1,588)	(2,408)
CASH FLOWS FROM FINANCING ACTIVITIES		
Funding for the acquisition of property and equipment	4,173	4,095
Restricted contributions and related investments income	197	185
Total cash flows provided by financing activities	4,370	4,280
INCREASE (DECREASE) IN CASH	2,918	1,899
Cash and short-term investments, beginning of the year	3,577	1,678
Cash and short-term investments, end of the year	\$ 6,495	\$ 3,577

The accompanying notes and schedule form an integral part of the financial statements.

March 31, 2003

Notes to Financial Statements

1. AUTHORITY, MANDATE AND OPERATIONS

The National Museum of Science and Technology was established by the *Museums Act* on July 1st, 1990, and is a Crown Corporation named in Part I of Schedule III to the *Financial Administration Act*.

The mandate of the Corporation, as stated in the *Museums Act*, is to foster scientific and technological literacy throughout Canada by establishing, maintaining and developing a collection of scientific and technical objects, with special but not exclusive reference to Canada, and by demonstrating the products and processes of science and technology and their economic, social and cultural relationships with society.

The Corporation is operating as the Canada Science and Technology Museum Corporation. It manages three museum sites: the Canada Science and Technology Museum, the Canada Aviation Museum and the Canada Agriculture Museum. The museums operate under a common set of corporate policies. Support services such as human resources, finance and facilities management are provided centrally. The Corporation's operations are divided into two complementary activities:

Management of the collection

This includes documentation, cataloguing and conservation.

Management of public facilities and programs

This includes the development and maintenance of exhibitions, interpretive and educational activities, communication and promotion, historical research, the library and related services, gift shops, food services and other services to visitors.

2. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are:

(A) INVENTORIES

Inventories are valued at the lower of cost and net realizable value.

(B) COLLECTION

The collection constitutes the major portion of the Corporation's assets but is shown at a nominal value of \$1,000 on the balance sheet because of the practical difficulties in reflecting it at a meaningful value. Items purchased for the collection are recorded as expenses in the year of acquisition. Items donated to the Corporation are not recorded in the books of account.

(C) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and are amortized using the straight-line method over their estimated useful lives as follows:

Building renovations	10 to 25 years
Equipment	5 to 12 years
Office furniture	5 to 10 years

Amounts included in uncompleted capital projects are transferred to the appropriate capital asset classification upon completion and are amortized according to the Corporation's policy.

(D) EMPLOYEES FUTURE BENEFITS

i) Pension benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the plan reflects the full cost of the employer's contributions. This amount is currently based on multiple of the employee's required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

ii) Severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as the employees render the services necessary to earn them. Management determined the accrued benefit obligation using a method based upon assumptions and its best estimates. These benefits represent the only obligation of the Corporation that entails settlement by future payment.

(E) DONATIONS

The Corporation follows the deferral method of accounting for donations.

Donations received for specific purposes, and related investment income, are deferred and recognized as revenue in the year in which the related expenses are incurred. Donations without restrictions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Volunteers contribute a significant number of hours per year. Because of the difficulty of determining their fair value, contributed services are not recognized in these financial statements.

(F) PARLIAMENTARY APPROPRIATIONS

The Government of Canada provides funding to the Corporation. Parliamentary appropriations received for specific projects are recorded as deferred capital funding and recognized in the year in which the related expenditures are incurred. The portion of the parliamentary appropriation intended to be used to purchase depreciable capital assets is recorded as deferred capital funding, and is amortized on the same basis and over the same periods as the related capital assets. The remaining portion of the appropriation is recorded in the statement of operations in the year for which it is approved.

(G) MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses for the year. Employee-related liabilities and estimated useful lives of capital assets are the most significant items in which estimates are used. Actual results could differ from those estimated.

3. CASH AND SHORT-TERM INVESTMENTS

<i>(in thousands of dollars)</i>	2003	2002
Cash	\$ 3,595	\$ 76
Short-term investments	2,900	3,501
	\$ 6,495	\$ 3,577

The Corporation's investments are limited to 90 days in Schedule "A" banks, government-backed paper and commercial paper rated A++ by the Canadian Bond Rating Services. The overall portfolio yield as at March 31, 2003 was 2.64% (2002 — 3.17%) and the average term to maturity was 67 days (2002 — 44 days).

The market value of the short-term investments is approximately \$2,909,000. Accrued interest of \$8,993 is presented in accounts receivable.

4. COLLECTION

Part of the mandate of the Corporation is "to foster scientific and technological literacy throughout Canada by establishing, maintaining and developing a collection of scientific and technological objects..." This collection is the main asset of the Corporation and is composed of over 450,000 items divided into the following areas:

AVIATION: aircraft and related materials

COMMUNICATIONS: graphic arts, film, photography and related systems, broadcasting, sound recording and reproduction, electronic communications and electronic music

INDUSTRIAL TECHNOLOGY: generic industrial processes, engineering, industrial design, construction, domestic appliances, tools and systems

NATURAL RESOURCES: energy production, processing and infrastructure, mining and extraction technology

RENEWABLE RESOURCES: agriculture, forestry and fishery technologies — harvesting and primary processing

SCIENTIFIC INSTRUMENTATION: instruments, tools and systems with direct application to mathematics, chemistry, physics, as well as astronomy, astrophysics, medicine, meteorology, surveying and mapping, and information technology

TRANSPORTATION: motorized and non-motorized wheel, track and trackless vehicles, motorized and non-motorized marine transportation, as well as the supporting infrastructure of technologies, tools and instruments

5. PROPERTY AND EQUIPMENT

<i>(in thousands of dollars)</i>	2003		2002	
	Cost	Accumulated amortization	Net book value	Net book value
Building renovations	\$ 13,449	\$ 5,959	\$ 7,490	\$ 8,124
Office furniture	5,414	4,341	1,073	703
Equipment	5,696	4,754	942	860
Uncompleted capital projects	967	0	967	268
	\$ 25,526	\$ 15,054	\$ 10,472	\$ 9,955

Capital assets do not include land and buildings occupied by the Corporation, since they are owned either by the Government of Canada or private interests.

6. EMPLOYEE FUTURE BENEFITS

i) Pension benefits

The Public Service Superannuation Plan required the Corporation to contribute at a rate of 2.14 times (2002 — 2.14). The Corporation's contribution to the Plan during the year was \$1,290,580 (2002 — \$1,103,469).

ii) Severance benefits

The Corporation provides severance benefits to its employees. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan is as follows:

<i>(in thousands of dollars)</i>	2003	2002
Accrued benefit obligation, beginning of year	\$ 1,485	\$ 1,415
Expense for the year	290	221
Benefits paid during the year	(60)	(151)
Accrued benefit obligation, end of year	1,715	1,485
Short-term portion	245	91
Long-term portion	1,470	1,394
	\$ 1,715	\$ 1,485

7. DEFERRED CONTRIBUTIONS

This represents the unspent amount of donations received from individuals and corporations for specific purposes and related investment income.

<i>(in thousands of dollars)</i>	2003	2002
Balance at the beginning of the year	\$ 344	\$ 241
Gifts and bequests	189	175
Interest	8	10
Amount recognized as revenue in the year	(332)	(82)
Balance at the end of the year	\$ 209	\$ 344

The balance in cash and short-term investments at the end of the year is restricted for specific purposes and is managed in accordance with the donors' wishes and the by-law of the Corporation.

8. DEFERRED CAPITAL FUNDING

Deferred capital funding represents the unamortized portion of parliamentary appropriations used or to be used to purchase depreciable capital assets. Changes in the deferred capital funding balance are as follows:

<i>(in thousands of dollars)</i>	2003	2002
Balance at the beginning of the year	\$ 12,372	\$ 10,138
Appropriation used in the current year to purchase depreciable capital assets	1,723	2,305
Appropriation received in the current year to purchase depreciable capital assets in future years	2,450	1,790
Deferred appropriation used in current year to complete capital projects	(1,293)	(626)
Amortization	(1,206)	(1,235)
Balance at the end of the year	\$ 14,046	\$ 12,372

9. COMMITMENTS

As at March 31, 2003, the Corporation had entered into various agreements for accommodation, protection services, facilities management services and exhibition rentals for a total of \$10,429,000. The commitments also include contracts for building construction services for the new hangar at the Canada Aviation Museum. The future minimum payments for the next five years are as follows:

(in thousands of dollars)

2003-2004	\$ 5,616
2004-2005	\$ 2,102
2005-2006	\$ 1,142
2006-2007	\$ 779
2007-2008	\$ 790

10. RELATED PARTY TRANSACTIONS

The Corporation is related to all Government of Canada departments, agencies and Crown corporations. The Corporation incurred expenses for the work and services provided by other government departments and agencies. These transactions were conducted in the normal course of operations, under the same terms and conditions that applied to outside parties.

11. PARLIAMENTARY APPROPRIATION

(in thousands of dollars)

	2003	2002
Main Estimates amount provided for operating and capital expenditures	\$ 24,833	\$ 22,884
Supplementary estimates:		
Aviation Museum	—	490
Severance adjustments and retroactive wages settlement	687	876
Increased Security	1,200	150
Outreach Project	150	250
Visioning Study	1,000	—
	27,870	24,650
Portion of amount deferred for capital projects	(2,450)	(1,790)
Deferred appropriation used in current year to complete capital projects	1,293	626
Amounts used to purchase depreciable capital assets	(1,723)	(2,305)
Amortization of deferred capital funding	1,206	1,235
Parliamentary appropriations	\$ 26,196	\$ 22,416

12. FINANCIAL INSTRUMENTS

The carrying amounts of the Corporation's accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

13. COMPARATIVE FIGURES

Certain 2002 comparative figures have been reclassified to conform to the current year's presentation.

SCHEDULE OF EXPENSES

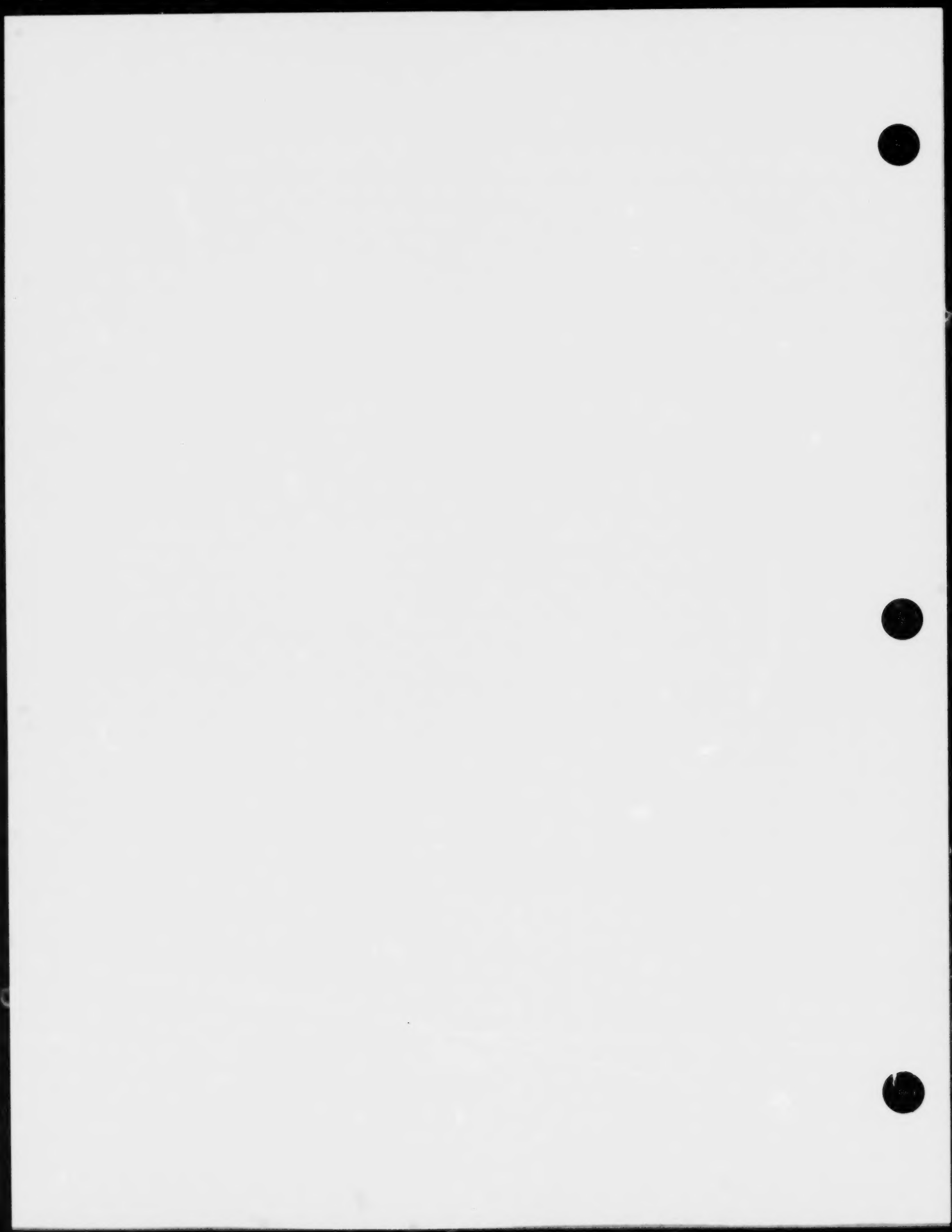
for the year ended March 31

(in thousands of dollars)

	2003	2002
Personnel costs	\$ 15,035	\$ 13,883
Professional and special services	2,835	1,854
Property taxes	1,859	1,719
Leases of buildings	1,777	1,760
Utilities	1,381	1,162
Amortization of capital assets	1,206	1,235
Material and supplies	1,206	1,058
Property management services	712	706
Advertising	645	782
Protection services	590	565
Gift stores, cafeteria and product marketing	573	561
Travel	481	269
Repairs and upkeep of equipment	317	446
Repairs and upkeep of buildings	315	928
Publications	308	327
Purchase of objects for the collection	247	56
Design and display	241	110
Communications	210	194
Rentals of equipment	153	171
Office supplies and equipment	103	149
Miscellaneous	94	83
Freight express and cartage	89	123
Books	81	95
Total expenses	\$ 30,458	\$ 28,236

**Old Port
of Montreal
Corporation
Inc.**

Financial data is excluded for Old Port of Montreal Corporation Inc. since its 2002-03 Annual Report had not been tabled in Parliament by October 10th, 2003.



**Pacific
Pilotage
Authority**

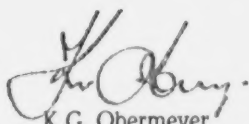


STATEMENT OF MANAGEMENT RESPONSIBILITY

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The Authority's management is responsible for the integrity and objectivity of the data in these financial statements along with the supporting information contained in the annual report. Management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors of the Authority is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through an Audit Committee which meets regularly with management and the independent auditor.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements of the Authority and for issuing her report thereon.



K.G. Obermeyer

Vice President, Marine Operations

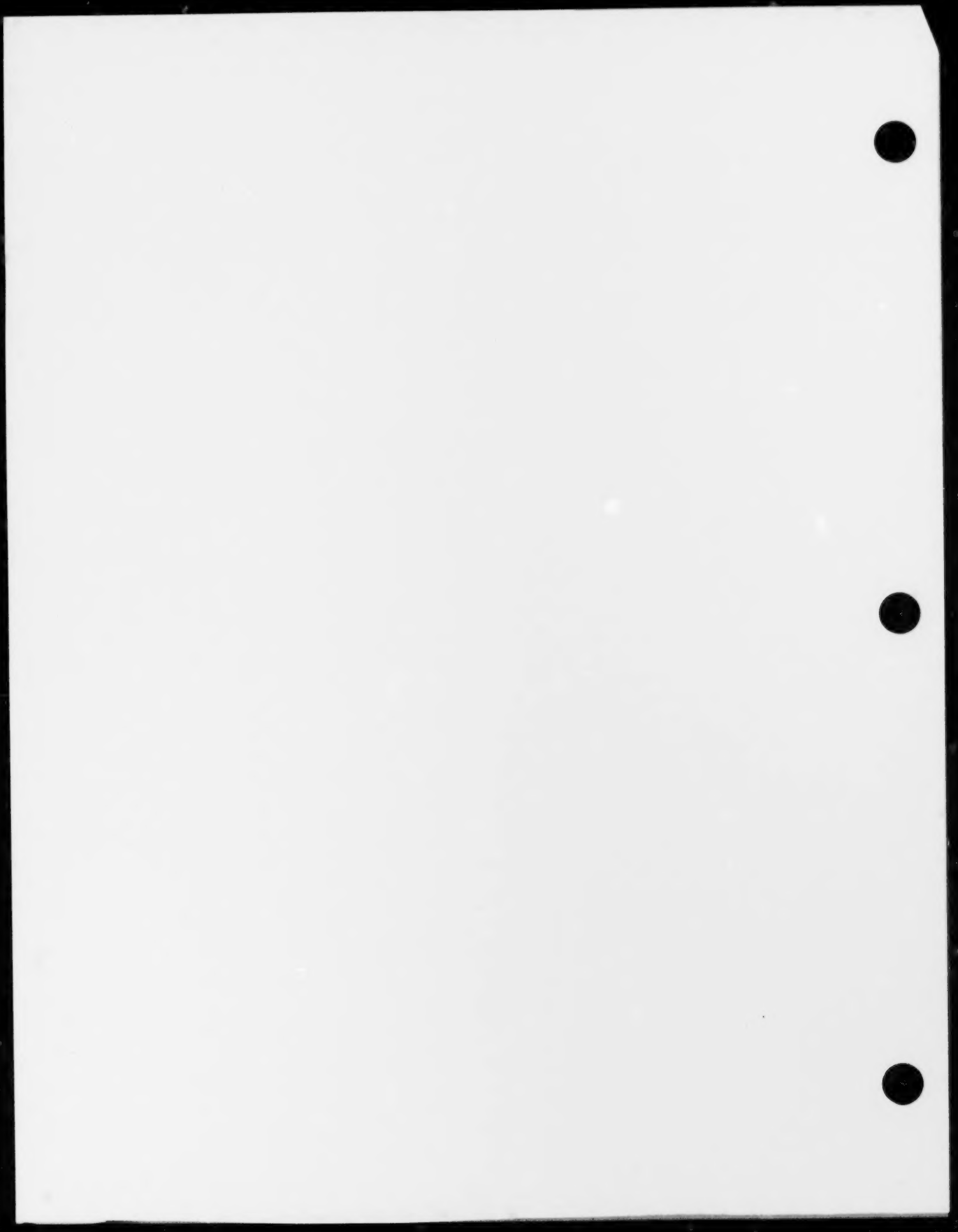
January 31, 2003



B.D. Chadwick

Controller





AUDITOR'S REPORT



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To the Minister of Transport

I have audited the balance sheet of the Pacific Pilotage Authority as at December 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations and the by-laws of the Authority.

Roger Simpson, FCA

Principal

for the Auditor General of Canada

Vancouver, Canada

January 31, 2003

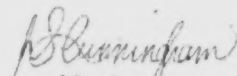
Balance Sheet
as at December 31
(in thousands of dollars)

ASSETS	2002	2001
Current		
Cash	\$ 2,172	\$ 1,769
Accounts receivable	3,465	3,109
Prepaid expenses	38	49
	<u>5,675</u>	<u>4,927</u>
Long-term		
Long-term investments (Note 4)	726	1,177
Capital assets (Note 5)	3,548	1,637
	<u>\$ 9,949</u>	<u>\$ 7,741</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 3,702	\$ 3,428
Current portion of bank loans (Note 6)	339	-
	<u>4,041</u>	<u>3,428</u>
Long-term		
Bank loans (Note 6)	983	-
Employee severance benefits	941	951
	<u>5,965</u>	<u>4,379</u>
Commitments (Note 7)		
EQUITY OF CANADA		
Contributed capital	806	806
Retained earnings	3,178	2,556
	<u>3,984</u>	<u>3,362</u>
	<u>\$ 9,949</u>	<u>\$ 7,741</u>

The accompanying notes are an integral part of these financial statements.

Approved by the Authority:


Chairman:


Member:

PACIFIC PILOTAGE AUTHORITY

Statement of Operations and Retained Earnings

for the year ended December 31

(in thousands of dollars)

	2002	2001
Revenues		
Pilotage charges	\$ 40,512	\$ 40,114
Interest and other income	78	176
	40,590	40,290
Expenses		
Contract pilots' fees	24,940	25,635
Operating costs of pilot boats	4,714	4,687
Transportation and travel	4,495	4,530
Staff salaries and benefits	2,264	2,135
Pilots' salaries and benefits	2,051	1,891
Pilots' training	552	861
Professional and special services	259	419
Utilities, materials and supplies	170	171
Rentals	168	164
Amortization	102	149
Computer services	94	100
Communications	66	65
Interest expense	47	—
Repairs and maintenance	46	44
	39,968	40,851
Net surplus (deficit) for the year	622	(561)
Retained earnings, beginning of year	2,556	3,117
Retained earnings, end of year	\$ 3,178	\$ 2,556

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

for the year ended December 31

(in thousands of dollars)

	2002	2001
Operating activities		
Net surplus (deficit) for the year	\$ 622	\$ (561)
Items not affecting cash:		
Amortization of capital assets	102	149
Employee severance benefits	(10)	56
Net change in working capital balances excluding cash	(71)	(64)
Cash provided by (used in) operating activities	643	(420)
Investing activities		
Acquisition of capital assets	(2,013)	(1,165)
Purchase of investments	(1,449)	(417)
Proceeds on disposal of investments	1,900	1,779
Cash (used in) provided by investing activities	(1,562)	197
Financing activities		
Bank loans	1,500	—
Repayment of bank loans	(178)	—
Cash provided by financing activities	1,322	—
Increase (decrease) in cash	403	(223)
Cash, beginning of year	1,769	1,992
Cash, end of year	\$ 2,172	\$ 1,769
Supplementary disclosure		
Interest paid	\$ 47	\$ —

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

December 31, 2002

1. Authority and objectives

The Pacific Pilotage Authority was established in 1972 pursuant to the *Pilotage Act*. The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The Act further provides that the tariffs of pilotage charges shall be fair and reasonable and consistent with providing a revenue, together with any revenue from other sources, sufficient to permit the Authority to operate on a self-sustaining financial basis.

Coastal pilotage services are provided by the British Columbia Coast Pilots Ltd. under an agreement for services. Pilotage services on the Fraser River are provided by employee pilots.

The Authority is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act* and is not subject to any income taxes.

2. Significant accounting policies**Amortization**

Amortization of capital assets is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Pilot boats	20 years
Equipment - communication and other	10 years
- computers	3 years
Leasehold improvements	10 years

Employee severance benefits

Employees are entitled to specified severance benefits as provided for under labour contracts and conditions of employment. The liability for these payments is estimated and recorded in the accounts as the benefits accrue to the employees.

Contributed capital

Amounts representing the values assigned to capital assets transferred from Canada in 1972 and the cost of property and equipment financed from previous parliamentary appropriations are shown as contributed capital.

Pension plan

All employees are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. The Authority contributes \$2.14 for every dollar contributed by the employee. If an employee's annual salary is greater than \$99,800, the portion of the employee's annual salary above \$99,800 is subject to an employer contribution of \$15.00 for every dollar contributed by the employee. The Authority's contributions during the year amounted to \$720,502 (2001 - \$579,065). These contributions represent the total pension obligation of the Authority and are recognized in the accounts on a current basis. Employee contributions to the plan were \$221,038 (2001 - \$234,638).

Investments

The objective of the Authority's long-term investment policy is to maximize the investment rate of return in a Government of Canada bond portfolio.

The carrying value of the investments, consisting of bonds, is cost, net of amortization of premiums/discounts on purchase. Market value is based on the quoted price of the securities at year-end. Gains and losses from the sale of the investments are realized in the year in which they occur.

3. Financial instruments

The Authority invests its funds with a Canadian chartered bank and Government of Canada guaranteed instruments.

Due to the short term nature of accounts receivable, accounts payable and accrued liabilities, their fair value approximates book value.

There is no concentration of accounts receivable with any one customer, and accordingly there is no significant credit risk.

4. Long-term investments

	2002		2001	
	Carrying Value	Market Value	Carrying Value	Market Value
	(in thousands of dollars)		(in thousands of dollars)	
Federal Bonds	\$ 428	\$ 466	\$ 859	\$ 908
Canada Housing Trust Bonds	132	138	—	—
Canada Mortgage and Housing Corporation Bonds	166	178	318	325
	\$ 726	\$ 782	\$ 1,177	\$ 1,233

The long-term investments will mature over the next five years. Fluctuations in interest rates can impact the market value of these investments. The effective yield on investments is 5.25% at December 31, 2002 (5.85% at December 31, 2001).

5. Capital assets

	2002			2001		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
	(in thousands of dollars)			(in thousands of dollars)		
Buildings	\$ 228	\$ 122	\$ 106	\$ 218	\$ 99	\$ 119
Pilot boats	1,306	1,203	103	1,306	1,186	120
Equipment						
- communication and other	698	647	51	698	611	87
- computers	271	260	11	255	239	16
Leasehold improvements	48	17	31	39	12	27
Work in progress - pilot launch	3,246	—	3,246	1,268	—	1,268
	\$ 5,797	\$ 2,249	\$ 3,548	\$ 3,784	\$ 2,147	\$ 1,637

6. Bank loans

	2002	2001
A fixed-rate term loan of \$ 1.0 million to finance the construction of a pilot launch was obtained in March of 2002. This loan matures in 2006 and bears interest at the rate of 5.87%. The capital repayments are calculated based on an amortization period of four years. During 2002, the Authority made capital repayments totalling \$ 170,125.	\$ 829,875	\$ -
A floating-rate term loan of \$ 500,000 to finance the construction of a pilot launch was drawn down upon in November of 2002. This loan matures in 2007 and bears interest at bank prime less 0.5% (December 31, 2002 - 4.0%). The capital repayments are calculated based on an amortization period of five years. During 2002, the Authority made capital repayments totalling \$ 8,333.	491,667	-
	1,321,542	-
Less: current portion	339,000	-
	\$ 982,542	-

Both loans are unsecured, but the Authority has agreed to refrain from pledging assets as security to any other party.

As at December 31, 2002, the capital repayments of these loans for the following years are as follows:

2003	\$ 339,000
2004	353,000
2005	368,000
2006	170,000
2007	92,000
	<u>\$ 1,322,000</u>

7. Commitments

The Authority has a long-term operating lease obligation for office accommodation of \$66,000 per annum to December 31, 2004 and \$76,000 per annum to December 31, 2009. The obligation also calls for payment of a pro-rata share of annual operating costs, estimated at \$42,000 for 2003.

The Authority has a vehicle lease obligation of \$6,000 per annum to December 26, 2005.

PACIFIC PILOTAGE AUTHORITY

Historical Financial Summary

(in thousands of dollars)

	1998	1999	2000	2001	2002	BUDGET 2003
REVENUES						
Pilotage	\$ 37,277	\$ 38,911	\$ 41,487	\$ 40,114	\$ 40,512	\$ 40,790
Interest & other	164	195	215	176	78	50
	37,441	39,106	41,702	40,290	40,590	40,840
EXPENSES	37,056	38,781	42,120	40,851	39,968	40,730
NET INCOME (DEFICIT)	\$ 385	\$ 325	\$ (418)	\$ (561)	\$ 622	\$ 110
FINANCIAL POSITION						
Current assets	\$ 6,231	\$ 6,618	\$ 6,185	\$ 4,927	\$ 5,675	\$ 4,880
Current liabilities	2,977	3,503	3,590	3,428	4,041	3,000
Working capital	\$ 3,254	\$ 3,115	\$ 2,595	\$ 1,499	\$ 1,634	\$ 1,880
Capital assets less accumulated amortization	\$ 515	\$ 556	\$ 621	\$ 1,637	\$ 3,548	\$ 3,730

Historical Operating Summary

	1998	1999	2000	2001	2002	BUDGET 2003
AVERAGE NO. OF PILOTS						
Coastal	110	107	104	106	101	106
Fraser River	7	7	8	8	8	8
NO. OF ASSIGNMENTS						
Coastal	12,232	12,590	13,256	12,037	11,194	11,000
Fraser River	1,035	1,186	1,329	1,398	1,461	1,200
SAFETY						
Assignments free of incidents	99.857%	99.891%	99.897%	99.926%	99.921%	

**Public
Sector
Pension
Investment
Board**



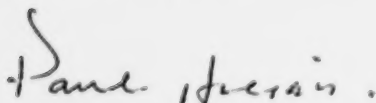
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Public Sector Pension Investment Board ("PSP Investments") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained in the annual report.

PSP Investments maintains records and systems of internal control and supporting procedures to provide reasonable assurance that PSP Investments' assets are safeguarded and controlled, and that transactions are in accordance with the *Public Sector Pension Investment Board Act*, the accompanying regulations, the by-laws, and the Statement of Investment Policies, Standards and Procedures.

The Audit and Conflicts Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the adequacy of internal controls. The Committee reviews the annual financial statements and recommends them to the Board of Directors for approval.

PSP Investments' external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit and Conflicts Committee to discuss findings related to the integrity of PSP Investments' financial reporting and the adequacy of internal control systems.



Paul G. Haggis
Director and Chair of the Management Committee
May 8, 2003

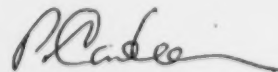


Danielle G. Morin
Chief Financial Officer
May 8, 2003

INVESTMENT CERTIFICATE

The *Public Sector Pension Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the Public Sector Pension Investment Board ("PSP Investments") held during the year were in accordance with the Act and PSP Investments' investment policies, standards and procedures. Accordingly, the Investment Certificate follows:

"The investments of PSP Investments held during the year ended March 31, 2003, were in accordance with the Act and PSP Investments' Statement of Investment Policies, Standards and Procedures."



Paul Cantor
Chairperson
May 8, 2003



PUBLIC SERVICE PENSION PLAN ACCOUNT

Auditors' Report

To the Board of Directors of
Public Sector Pension Investment Board – Public Service Pension Plan Account

We have audited the Balance Sheet and the Statement of Investment Portfolio of the Public Sector Pension Investment Board - Public Service Pension Plan Account (the "Public Service Pension Plan Account") as at March 31, 2003 and the Statements of Net Income (Loss) and Accumulated Net Income (Loss) from Operations and of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Public Sector Pension Investment Board's ("PSP Investments") management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan Account and the investments held as at March 31, 2003 and the results of its operations and of changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the Public Service Pension Plan Account that have come to our attention during our audit of the financial statements have, in all significant respects, been in accordance with the *Public Sector Pension Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by PSP Investments' management pursuant to paragraph 35 (1) (c) of the *Act* fairly presents, in all material respects, the information required by the *Act*.

Deloitte & Touche LLP

Chartered Accountants

Montréal, Québec
May 1, 2003

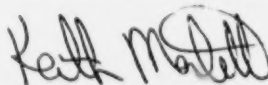
PUBLIC SERVICE PENSION PLAN ACCOUNT

Balance Sheet

As at March 31

	2003 (\$,000)	2002 (\$,000)
ASSETS		
Investments - at fair value (Note 2)	5,755,424	3,956,679
Cash	-	19,036
Other assets	906	15
Due from the Canadian Forces Pension Plan Account (Note 5a)	1,257	516
Due from the Royal Canadian Mounted Police Pension Plan Account (Note 5a)	442	182
	5,758,029	3,976,428
LIABILITIES		
Accounts payable and accrued liabilities	1,197	1,212
NET ASSETS	5,756,832	3,975,216
NET ASSETS REPRESENTED BY		
Accumulated net income (loss) from operations	(726,087)	(64,831)
Accumulated fund transfers	6,482,919	4,040,047
	5,756,832	3,975,216

On behalf of the Board of Directors:


Keith Martell
Director and Chair of the Audit and Conflicts Committee**Statement of Changes in Net Assets**

For the year ended March 31

	2003 (\$,000)	2002 (\$,000)
NET ASSETS, BEGINNING OF YEAR	3,975,216	1,789,504
CHANGES IN NET ASSETS		
Fund transfers (Note 3)	2,442,872	2,086,332
Net income (loss) from operations	(661,256)	99,380
NET ASSETS, END OF YEAR	5,756,832	3,975,216

PUBLIC SERVICE PENSION PLAN ACCOUNT

**Statement of Net Income (Loss) and
Accumulated Net Income (Loss) from Operations**

For the year ended March 31

	2003 (\$,000)	2002 (\$,000)
INVESTMENT INCOME AND GAINS (LOSSES)		
Interest and dividends	145,778	94,111
Net realized gains (losses) (Note 2c)	1,654	(258,587)
Change in unrealized appreciation (depreciation) in value of investments	(799,527)	268,988
	(652,095)	104,512
EXPENSES (Note 5)		
Operating expenses (Note 5b)	6,334	4,605
External investment management fees	2,827	527
	9,161	5,132
NET INCOME (LOSS) FROM OPERATIONS	(661,256)	99,380
ACCUMULATED NET INCOME (LOSS) FROM OPERATIONS, BEGINNING OF THE YEAR	(64,831)	(164,211)
ACCUMULATED NET INCOME (LOSS) FROM OPERATIONS, END OF THE YEAR	(726,087)	(64,831)

Statement of Investment Portfolio

As at March 31

Investments (Note 2)	2003			2002		
	Cost (\$,000)	Fair Value (\$,000)	% of Portfolio (At Fair Value)	Cost (\$,000)	Fair Value (\$,000)	% of Portfolio (At Fair Value)
CANADIAN EQUITIES						
PSP Canadian Equities Fund	2,475,960	2,245,506	39.0	1,275,713	1,392,032	35.2
265,105,274.794580 units (2002 - 131,307,615.207260 units)						
FOREIGN EQUITIES						
PSP Foreign Equities Fund	1,928,402	1,478,515	25.7	1,142,418	1,189,917	30.0
205,081,055.123123 units (2002 - 112,246,031.773966 units)						
FIXED INCOME						
PSP Fixed Income Fund	1,871,877	1,857,771	32.3	1,315,631	1,256,819	31.8
182,085,349.873897 units (2002 - 128,317,440.461707 units)						
CASH EQUIVALENTS						
PSP Cash Equivalents Fund	173,710	173,632	3.0	117,915	117,911	3.0
17,357,665.154583 units (2002 - 11,789,343.236263 units)						
	6,449,949	5,755,424	100.0%	3,851,677	3,956,679	100.0%

PUBLIC SERVICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

ORGANIZATION

The Public Sector Pension Investment Board ("PSP Investments") was formed pursuant to the *Public Sector Pension Investment Board Act* (the "Act") with a mandate to invest in financial markets the contributions to the Public Service, Canadian Forces and Royal Canadian Mounted Police pension plans. Prior to the implementation of the provisions of the Act, the balances of the plans were credited with a rate of interest based on long-term Government of Canada bonds.

The Public Service Pension Fund was established by amendments to the *Public Service Superannuation Act*, to receive contributions and make benefit payments in respect of member service after April 1, 2000. The excess of contributions over benefits is transferred, by the Public Service Pension Fund, to PSP Investments - Public Service Pension Plan Account for investment. PSP Investments maintains records of the Pension Fund's net contributions, as well as, the allocation of its investments and the results of its operations to each of the Plan Accounts.

PSP Investments is responsible for managing amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Public Service Superannuation Act*. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the *Public Service Superannuation Act*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements present the financial position and operations of PSP Investments as they pertain to the investment of the excess funds transferred to it from the Public Service Pension Fund. Accordingly, they do not reflect all of the assets, or the details of the pension contributions, payments and liabilities of the Public Service Pension Fund. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act.

Valuation of investments

Investments consist of the unit interest in PSP Investments' assets (The "PSP Funds") that are allocated to this Plan Account. Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value for investments in pooled funds is based on unit values, which reflect the quoted market prices of the underlying securities.

Income recognition

The investment income has been allocated by PSP Investments according to the number of units of PSP Funds held by the Public Service Pension Plan Account.

Investment income is recorded on the accrual basis and represents realized gains and losses on the disposal of investments, change in unrealized appreciation (depreciation) on investments held at the end of the year, interest income and dividends. These income items include the related distributions from PSP Funds.

Translation of foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at the end of the year are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses on foreign exchanges are included in investment income.

Fund transfers

Amounts received from the Public Service Pension Fund are recorded on a cash basis.

Income Taxes

PSP Investments is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results may differ from estimates.

PUBLIC SERVICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

2. INVESTMENTS

The Statement of Investment Portfolio provides details of investments held as at March 31, 2003.

(a) Investment Policy

PSP Investments has established a Statement of Investment Policies, Standards and Procedures, (the "Investment Policy") which sets out the manner in which the assets shall be invested for the Public Service Pension Plan Account. Asset mix policy and benchmarks as at March 31, 2003 were as follows:

Asset Class	Policy Mix	Benchmark
Canadian Equities	35.0%	S&P/TSX
Foreign Equities	30.0%	S&P 500, MSCI EAFE
Fixed Income	32.0%	SC Bond Universe
Cash Equivalents	3.0%	SC 91-day T-bill

Effective April 1st 2003, an amendment to the Investment Policy enables PSP Investments to hedge part of the foreign currency exposure.

(b) Foreign currency exposure

This Plan Account is exposed to currency risk through holdings of units in PSP Funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying foreign currency exposures by currency as at March 31 were as follows:

Currency	2003		2002	
	Fair Value (\$,000)	% of Total	Fair Value (\$,000)	% of Total
US Dollars	869,843	58.9	683,437	57.4
Euro	224,369	15.2	190,156	16.0
British Pound	140,524	9.5	125,913	10.6
Yen	125,644	8.5	103,686	8.7
Others	116,997	7.9	86,725	7.3
	1,477,377	100.0%	1,189,917	100.0%

In accordance with the Investment Policy, foreign currency exposures are not hedged.

The fair value of PSP Foreign Equities Fund includes \$1,138 thousand of Canadian dollars (2002 - Nil) which are not included in the foreign currency exposure.

In April 2003, a program was initiated to hedge up to 50% of the fair value of all US dollar denominated investments held in the PSP Foreign Equities Fund.

(c) Transfer of SSgA Pooled Fund units to PSP Funds

On October 2nd 2001, PSP Investments created the PSP Funds and the units in SSgA pooled funds previously held in the name of this Plan Account, were transferred to the PSP Funds. This deemed disposition caused previously *Change in unrealized depreciation in value of investments* to become realized losses in the *Statement of Net Income (Loss) and Accumulated Net Income (Loss) from Operations* for this Plan Account. This had no impact on the Plan Account, except for bringing the investments cost values closer to their fair values at that time.

Further details of Investments are shown in the PSP Investments Financial Statements.

3. FUND TRANSFERS

During the year, PSP Investments received \$2,442.9 million (2002 - \$2,086.3 million) of transfers from the Public Service Pension Fund. The transfers result from net current employer and employee contributions to the Public Service Pension Plan.

PUBLIC SERVICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

4. INVESTMENT PERFORMANCE

Portfolio and benchmark returns for the year ended March 31 were as follows:

	2003		2002	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Canadian Equities	(18.6)%	(17.6)%	4.7%	4.9% S&P/TSX
Foreign Equities	(30.5)%	(29.9)%	(3.3)%	(2.6)% S&P 500 & MSCI EAFE
Fixed Income	9.4%	9.2%	5.3%	5.1% SC Bond Universe
Cash Equivalents	3.2%	2.7%	4.0%	3.7% SC 91-day T-bill
Total Return	(13.5)%	(12.9)%	2.7%	2.8%

The total benchmark return aggregates the asset class benchmark returns according to the weights specified in the Investment Policy, as disclosed in Note 2 (a).

Returns have been calculated in accordance with the mandatory requirements set forth by the Association for Investment Management and Research (AIMR). Returns are presented gross of expenses.

5. EXPENSES

(a) Allocation of expenses

The Act requires that the costs of operation of PSP Investments be charged to the three plans for which it provides investment services. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Solicitor General of Canada. An allocation policy has been developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, and allocates, on a quarterly basis, operating expenses excluding custodial fees, based upon the asset value of each Plan Account.

Operating expenses excluding custodial fees have been allocated as follows:

	2003	2002
Public Service Pension Plan Account	70.4%	70.6%
Canadian Forces Pension Plan Account	21.9%	21.7%
Royal Canadian Mounted Police Pension Plan Account	7.7%	7.7%

Expenses are financed by the Public Service Pension Plan Account, which is reimbursed by the other Plan Accounts on a quarterly basis.

(b) Operating expenses

Operating expenses allocated to this Plan Account consist of the following:

	2003	2002
	(\$,000)	(\$,000)
Salaries and benefits	3,199	1,944
General operating expenses	2,239	1,610
Professional and consulting fees	896	1,051
	6,334	4,605

Further details of Operating expenses are shown in the PSP Investments Financial Statements.

CANADIAN FORCES PENSION PLAN ACCOUNT

Auditors' Report

To the Board of Directors of
Public Sector Pension Investment Board — Canadian Forces Pension Plan Account

We have audited the Balance Sheet and the Statement of Investment Portfolio of the Public Sector Pension Investment Board - Canadian Forces Pension Plan Account (the "Canadian Forces Pension Plan Account") as at March 31, 2003 and the Statements of Net Income (Loss) and Accumulated Net Income (Loss) from Operations and of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Public Sector Pension Investment Board's ("PSP Investments") management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Forces Pension Plan Account and the investments held as at March 31, 2003 and the results of its operations and of changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the Canadian Forces Pension Plan Account that have come to our attention during our audit of the financial statements have, in all significant respects, been in accordance with the *Public Sector Pension Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by PSP Investments' management pursuant to paragraph 35 (1) (c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

Chartered Accountants

Montréal, Québec
May 1, 2003

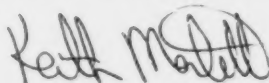
CANADIAN FORCES PENSION PLAN ACCOUNT

Balance Sheet

As at March 31

	2003 (\$,000)	2002 (\$,000)
ASSETS		
Investments - at fair value (Note 2)	1,730,757	1,231,709
Cash	-	5,009
Other assets	282	2
	1,731,039	1,236,720
LIABILITIES		
Bank overdraft (Note 3)	5,359	-
Accounts payable and accrued liabilities	488	156
Due to the Public Service Pension Plan Account (Note 6a)	1,257	516
	7,104	672
NET ASSETS	1,723,935	1,236,048
NET ASSETS REPRESENTED BY		
Accumulated net income (loss) from operations	(219,127)	(19,041)
Accumulated fund transfers	1,943,062	1,255,089
	1,723,935	1,236,048

On behalf of the Board of Directors:


Keith Martell
Director and Chair of the Audit and Conflicts Committee**Statement of Changes in Net Assets**

For the year ended March 31

	2003 (\$,000)	2002 (\$,000)
NET ASSETS, BEGINNING OF YEAR	1,236,048	532,446
CHANGES IN NET ASSETS		
Fund transfers (Note 4)	687,973	674,012
Net income (loss) from operations	(200,086)	29,590
NET ASSETS, END OF YEAR	1,723,935	1,236,048

CANADIAN FORCES PENSION PLAN ACCOUNT

**Statement of Net Income (Loss) and
Accumulated Net Income (Loss) from Operations**

For the year ended March 31

	2003 (\$,000)	2002 (\$,000)
INVESTMENT INCOME AND GAINS (LOSSES)		
Interest and dividends	44,858	30,047
Net realized gains (losses) (Note 2c)	805	(79,064)
Change in unrealized appreciation (depreciation) in value of investments	(242,917)	80,195
	(197,254)	31,178
EXPENSES (Note 6)		
Operating expenses (Note 6b)	1,970	1,422
External investment management fees	862	166
	2,832	1,588
NET INCOME (LOSS) FROM OPERATIONS	(200,086)	29,590
ACCUMULATED NET INCOME (LOSS) FROM OPERATIONS, BEGINNING OF THE YEAR	(19,041)	(48,631)
ACCUMULATED NET INCOME (LOSS) FROM OPERATIONS, END OF THE YEAR	(219,127)	(19,041)

Statement of Investment Portfolio

As at March 31

Investments (Note 2)	2003			2002		
	Cost (\$,000)	Fair Value (\$,000)	% of Portfolio (At Fair Value)	Cost (\$,000)	Fair Value (\$,000)	% of Portfolio (At Fair Value)
CANADIAN EQUITIES						
PSP Canadian Equities Fund	745,811	676,039	39.0	396,886	433,342	35.2
79,813,358.691790 units (2002 - 40,876,309.185290 units)						
FOREIGN EQUITIES						
PSP Foreign Equities Fund	580,621	444,144	25.7	356,213	370,415	30.0
61,606,182.434812 units (2002 - 34,941,663.738446 units)						
FIXED INCOME						
PSP Fixed Income Fund	563,305	558,319	32.3	410,241	391,246	31.8
54,722,438.406860 units (2002 - 39,944,989.127895 units)						
CASH EQUIVALENTS						
PSP Cash Equivalents Fund	52,273	52,255	3.0	36,705	36,706	3.0
5,223,793.736824 units (2002 - 3,670,000.853579 units)						
	1,942,010	1,730,757	100.0%	1,200,045	1,231,709	100.0%

CANADIAN FORCES PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

ORGANIZATION

The Public Sector Pension Investment Board ("PSP Investments") was formed pursuant to the *Public Sector Pension Investment Board Act* (the "Act") with a mandate to invest in financial markets the contributions to the Public Service, Canadian Forces and Royal Canadian Mounted Police pension plans. Prior to the implementation of the provisions of the Act, the balances of the plans were credited with a rate of interest based on long-term Government of Canada bonds.

The Canadian Forces Pension Fund was established by amendments to the *Canadian Forces Superannuation Act*, to receive contributions and make benefit payments in respect of member service after April 1, 2000. The excess of contributions over benefits is transferred, by the Canadian Forces Pension Fund, to PSP Investments - Canadian Forces Pension Plan Account for investment. PSP Investments maintains records of the Pension Fund's net contributions, as well as, the allocation of its investments and the results of its operations to each of the Plan Accounts.

PSP Investments is responsible for managing amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Canadian Forces Superannuation Act*. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the *Canadian Forces Superannuation Act*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements present the financial position and operations of PSP Investments as they pertain to the investment of the excess funds transferred to it from the Canadian Forces Pension Fund. Accordingly, they do not reflect all of the assets, or the details of the pension contributions, payments and liabilities of the Canadian Forces Pension Fund. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act.

Valuation of investments

Investments consist of the unit interest in PSP Investments' assets (The "PSP Funds") that are allocated to this Plan Account. Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value for investments in pooled funds is based on unit values, which reflect the quoted market prices of the underlying securities.

Income recognition

The investment income has been allocated by PSP Investments according to the number of units of PSP Funds held by the Canadian Forces Pension Plan Account.

Investment income is recorded on the accrual basis and represents realized gains and losses on the disposal of investments, change in unrealized appreciation (depreciation) on investments held at the end of the year, interest income and dividends. These income items include the related distributions from PSP Funds.

Translation of foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at the end of the year are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses on foreign exchanges are included in investment income.

Fund transfers

Amounts received from the Canadian Forces Pension Fund are recorded on a cash basis.

Income Taxes

PSP Investments is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results may differ from estimates.

CANADIAN FORCES PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

2. INVESTMENTS

The Statement of Investment Portfolio provides details of investments held as at March 31, 2003.

(a) Investment Policy

PSP Investments has established a Statement of Investment Policies, Standards and Procedures, (the "Investment Policy") which sets out the manner in which the assets shall be invested for the Canadian Forces Pension Plan Account. Asset mix policy and benchmarks as at March 31, 2003 were as follows:

Asset Class	Policy Mix	Benchmark
Canadian Equities	35.0%	S&P/TSX
Foreign Equities	30.0%	S&P 500, MSCI EAFE
Fixed Income	32.0%	SC Bond Universe
Cash Equivalents	3.0%	SC 91-day T-bill

Effective April 1st 2003, an amendment to the Investment Policy enables PSP Investments to hedge part of the foreign currency exposure.

(b) Foreign currency exposure

This Plan Account is exposed to currency risk through holdings of units in PSP Funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying foreign currency exposures by currency as at March 31 were as follows:

Currency	2003		2002	
	Fair Value (\$,000)	% of Total	Fair Value (\$,000)	% of Total
US Dollars	261,300	58.9	212,751	57.4
Euro	67,400	15.2	59,195	16.0
British Pound	42,214	9.5	39,196	10.6
Yen	37,743	8.5	32,277	8.7
Others	35,146	7.9	26,996	7.3
	443,803	100.0%	370,415	100.0%

In accordance with the Investment Policy, foreign currency exposures are not hedged.

The fair value of PSP Foreign Equities Fund includes \$341 thousand of Canadian dollars (2002 - Nil) which are not included in the foreign currency exposure.

In April 2003, a program was initiated to hedge up to 50% of the fair value of all US dollar denominated investments held in the PSP Foreign Equities Fund.

(c) Transfer of SSgA Pooled Fund units to PSP Funds

On October 2nd 2001, PSP Investments created the PSP Funds and the units in SSgA pooled funds previously held in the name of this Plan Account, were transferred to the PSP Funds. This deemed disposition caused previously *Change in unrealized depreciation in value of investments* to become realized losses in the *Statement of Net Income (Loss) and Accumulated Net Income (Loss) from Operations* for this Plan Account. This had no impact on the Plan Account, except for bringing the investments cost values closer to their fair values at that time.

Further details of Investments are shown in the PSP Investments Financial Statements.

3. BANK OVERDRAFT

The bank overdraft is an infrequent occurrence and arises from temporary requirements to settle security purchases prior to receiving the contribution from the Pension Fund. The amount is repaid within two business days.

CANADIAN FORCES PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

4. FUND TRANSFERS

During the year, PSP Investments received \$688.0 million (2002 - \$674.0 million) of transfers from the Canadian Forces Pension Fund. The transfers result from net current employer and employee contributions to the Canadian Forces Pension Plan.

5. INVESTMENT PERFORMANCE

Portfolio and benchmark returns for the year ended March 31 were as follows:

	2003		2002	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Canadian Equities	(18.6)%	(17.6)%	4.7%	4.9% S&P/TSX
Foreign Equities	(30.5)%	(29.9)%	(3.3)%	(2.6)% S&P 500 & MSCI EAFE
Fixed Income	9.4%	9.2%	5.3%	5.1% SC Bond Universe
Cash Equivalents	3.2%	2.7%	4.1%	3.7% SC 91-day T-bill
Total Return	(13.5)%	(12.9)%	2.8%	2.8%

The total benchmark return aggregates the asset class benchmark returns according to the weights specified in the Investment Policy, as disclosed in Note 2 (a).

Returns have been calculated in accordance with the mandatory requirements set forth by the Association for Investment Management and Research (AIMR). Returns are presented gross of expenses.

6. EXPENSES

(a) Allocation of expenses

The Act requires that the costs of operation of PSP Investments be charged to the three plans for which it provides investment services. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Solicitor General of Canada. An allocation policy has been developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, and allocates, on a quarterly basis, operating expenses excluding custodial fees, based upon the asset value of each Plan Account.

Operating expenses excluding custodial fees have been allocated as follows:

	2003	2002
Public Service Pension Plan Account	70.4%	70.6%
Canadian Forces Pension Plan Account	21.9%	21.7%
Royal Canadian Mounted Police Pension Plan Account	7.7%	7.7%

Expenses are financed by the Public Service Pension Plan Account, which is reimbursed by the other Plan Accounts on a quarterly basis.

(b) Operating expenses

Operating expenses allocated to this Plan Account consist of the following:

	2003	2002
	(\$,000)	(\$,000)
Salaries and benefits	995	600
General operating expenses	696	497
Professional and consulting fees	279	325
	1,970	1,422

Further details of Operating expenses are shown in the PSP Investments Financial Statements.

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

Auditors' Report

To the Board of Directors of
Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account

We have audited the Balance Sheet and the Statement of Investment Portfolio of the Public Sector Pension Investment Board - Royal Canadian Mounted Police Pension Plan Account (the "Royal Canadian Mounted Police Pension Plan Account") as at March 31, 2003 and the Statements of Net Income (Loss) and Accumulated Net Income (Loss) from Operations and of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Public Sector Pension Investment Board's ("PSP Investments") management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Royal Canadian Mounted Police Pension Plan Account and the investments held as at March 31, 2003 and the results of its operations and of changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the Royal Canadian Mounted Police Pension Plan Account that have come to our attention during our audit of the financial statements, have, in all significant respects, been in accordance with the *Public Sector Pension Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by PSP Investments' management pursuant to paragraph 35 (1) (c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

Chartered Accountants

Montréal, Québec
May 1, 2003

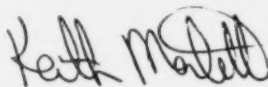
ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

Balance Sheet

As at March 31

	2003 (\$,000)	2002 (\$,000)
ASSETS		
Investments - at fair value (Note 2)	615,460	435,587
Cash	-	26
Other assets	99	-
	615,559	435,613
LIABILITIES		
Accounts payable and accrued liabilities	172	56
Due to the Public Service Pension Plan Account (Note 5a)	442	182
	614	238
NET ASSETS	614,945	435,375
NET ASSETS REPRESENTED BY		
Accumulated net income (loss) from operations	(78,812)	(7,153)
Accumulated fund transfers	693,757	442,528
	614,945	435,375

On behalf of the Board of Directors:



Keith Martell
Director and Chair of the Audit and Conflicts Committee

Statement of Changes in Net Assets

For the year ended March 31

	2003 (\$,000)	2002 (\$,000)
NET ASSETS, BEGINNING OF YEAR	435,375	188,818
CHANGES IN NET ASSETS		
Fund transfers (Note 3)	251,229	236,018
Net income (loss) from operations	(71,659)	10,539
NET ASSETS, END OF YEAR	614,945	435,375

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

**Statement of Net Income (Loss) and
Accumulated Net Income (Loss) from Operations**

For the year ended March 31

	2003 (\$,000)	2002 (\$,000)
INVESTMENT INCOME AND GAINS (LOSSES)		
Interest and dividends	15,913	10,791
Net realized gains (losses) (Note 2c)	165	(28,493)
Change in unrealized appreciation (depreciation) in value of investments	(86,740)	28,807
	(70,662)	11,105
EXPENSES (Note 5)		
Operating expenses (Note 5b)	693	508
External investment management fees	304	58
	997	566
NET INCOME (LOSS) FROM OPERATIONS	(71,659)	10,539
ACCUMULATED NET INCOME (LOSS) FROM OPERATIONS, BEGINNING OF THE YEAR	(7,153)	(17,692)
ACCUMULATED NET INCOME (LOSS) FROM OPERATIONS, END OF THE YEAR	(78,812)	(7,153)

Statement of Investment Portfolio

As at March 31

Investments (Note 2)	2003			2002		
	Cost (\$,000)	Fair Value (\$,000)	% of Portfolio (At Fair Value)	Cost (\$,000)	Fair Value (\$,000)	% of Portfolio (At Fair Value)
CANADIAN EQUITIES						
PSP Canadian Equities Fund 28,388,906.696673 units (2002 - 14,455,756.369672 units)	265,380	240,461	39.0	140,267	153,250	35.2
FOREIGN EQUITIES						
PSP Foreign Equities Fund 21,884,145.223347 units (2002 - 12,356,845.579382 units)	206,605	157,772	25.7	126,052	130,994	30.0
FIXED INCOME						
PSP Fixed Income Fund 19,471,215.478186 units (2002 - 14,126,327.385281 units)	200,467	198,660	32.3	145,114	138,362	31.8
CASH EQUIVALENTS						
PSP Cash Equivalents Fund 1,856,127.916565 units (2002 - 1,297,875.834010 units)	18,576	18,567	3.0	12,982	12,981	3.0
	691,028	615,460	100.0%	424,415	435,587	100.0%

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

ORGANIZATION

The Public Sector Pension Investment Board ("PSP Investments") was formed pursuant to the *Public Sector Pension Investment Board Act* (the "Act") with a mandate to invest in financial markets the contributions to the Public Service, Canadian Forces and Royal Canadian Mounted Police pension plans. Prior to the implementation of the provisions of the Act, the balances of the plans were credited with a rate of interest based on long-term Government of Canada bonds.

The Royal Canadian Mounted Police Pension Fund was established by amendments to the *Royal Canadian Mounted Police Superannuation Act*, to receive contributions and make benefit payments in respect of member service after April 1, 2000. The excess of contributions over benefits is transferred, by the Royal Canadian Mounted Police Pension Fund, to PSP Investments - Royal Canadian Mounted Police Pension Plan Account for investment. PSP Investments maintains records of the Pension Fund's net contributions, as well as, the allocation of its investments and the results of its operations to each of the Plan Accounts.

PSP Investments is responsible for managing amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Royal Canadian Mounted Police Superannuation Act*. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the *Royal Canadian Mounted Police Superannuation Act*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements present the financial position and operations of PSP Investments as they pertain to the investment of the excess funds transferred to it from the Royal Canadian Mounted Police Pension Fund. Accordingly, they do not reflect all of the assets, or the details of the pension contributions, payments and liabilities of the Royal Canadian Mounted Police Pension Fund. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act.

Valuation of investments

Investments consist of the unit interest in PSP Investments' assets (The "PSP Funds") that are allocated to this Plan Account. Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value for investments in pooled funds is based on unit values, which reflect the quoted market prices of the underlying securities.

Income recognition

The investment income has been allocated by PSP Investments according to the number of units of PSP Funds held by the Royal Canadian Mounted Police Pension Plan Account.

Investment income is recorded on the accrual basis and represents realized gains and losses on the disposal of investments, change in unrealized appreciation (depreciation) on investments held at the end of the year, interest income and dividends. These income items include the related distributions from PSP Funds.

Translation of foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at the end of the year are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses on foreign exchanges are included in investment income.

Fund transfers

Amounts received from the Royal Canadian Mounted Police Pension Fund are recorded on a cash basis.

Income Taxes

PSP Investments is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results may differ from estimates.

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

2. INVESTMENTS

The Statement of Investment Portfolio provides details of investments held as at March 31, 2003.

(a) Investment Policy

PSP Investments has established a Statement of Investment Policies, Standards and Procedures, (the "Investment Policy") which sets out the manner in which the assets shall be invested for the Royal Canadian Mounted Police Pension Plan Account. Asset mix policy and benchmarks as at March 31, 2003 were as follows:

Asset Class	Policy Mix	Benchmark
Canadian Equities	35.0%	S&P/TSX
Foreign Equities	30.0%	S&P 500, MSCI EAFE
Fixed Income	32.0%	SC Bond Universe
Cash Equivalents	3.0%	SC 91-day T-bill

Effective April 1st 2003, an amendment to the Investment Policy enables PSP Investments to hedge part of the foreign currency exposure.

(b) Foreign currency exposure

This Plan Account is exposed to currency risk through holdings of units in PSP Funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying foreign currency exposures by currency as at March 31 were as follows:

Currency	2003		2002	
	Fair Value (\$,000)	% of Total	Fair Value (\$,000)	% of Total
US Dollars	92,821	58.9	75,238	57.4
Euro	23,942	15.2	20,934	16.0
British Pound	14,995	9.5	13,861	10.6
Yen	13,407	8.5	11,414	8.7
Others	12,485	7.9	9,547	7.3
	157,650	100.0%	130,994	100.0%

In accordance with the Investment Policy, foreign currency exposures are not hedged.

The fair value of PSP Foreign Equities Fund includes \$122 thousand of Canadian dollars (2002 - Nil) which are not included in the foreign currency exposure.

In April 2003, a program was initiated to hedge up to 50% of the fair value of all US dollar denominated investments held in the PSP Foreign Equities Fund.

(c) Transfer of SSgA Pooled Fund units to PSP Funds

On October 2nd 2001, PSP Investments created the PSP Funds and the units in SSgA pooled funds previously held in the name of this Plan Account, were transferred to the PSP Funds. This deemed disposition caused previously *Change in unrealized depreciation in value of investments* to become realized losses in the *Statement of Net Income (Loss) and Accumulated Net Income (Loss) from Operations* for this Plan Account. This had no impact on the Plan Account, except for bringing the investments cost values closer to their fair values at that time.

Further details of Investments are shown in the PSP Investments Financial Statements.

3. FUND TRANSFERS

During the year, PSP Investments received \$251.2 million (2002 - \$236.0 million) of transfers from the Royal Canadian Mounted Police Pension Fund. The transfers result from net current employer and employee contributions to the Royal Canadian Mounted Police Pension Plan.

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

Notes to the Financial Statements

For the year ended March 31, 2003

4. INVESTMENT PERFORMANCE

Portfolio and benchmark returns for the year ended March 31 were as follows:

	2003		2002	
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns
Canadian Equities	(18.6)%	(17.6)%	4.8%	4.9% S&P/TSX
Foreign Equities	(30.5)%	(29.9)%	(3.3)%	(2.6)% S&P 500 & MSCI EAFE
Fixed Income	9.4%	9.2%	5.3%	5.1% SC Bond Universe
Cash Equivalents	3.2%	2.7%	4.0%	3.7% SC 91-day T-bill
Total Return	(13.5)%	(12.9)%	2.7%	2.8%

The total benchmark return aggregates the asset class benchmark returns according to the weights specified in the Investment Policy, as disclosed in Note 2 (a).

Returns have been calculated in accordance with the mandatory requirements set forth by the Association for Investment Management and Research (AIMR). Returns are presented gross of expenses.

5. EXPENSES**(a) Allocation of expenses**

The Act requires that the costs of operation of PSP Investments be charged to the three plans for which it provides investment services. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Solicitor General of Canada. An allocation policy has been developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, and allocates, on a quarterly basis, operating expenses excluding custodial fees, based upon the asset value of each Plan Account.

Operating expenses excluding custodial fees have been allocated as follows:

	2003	2002
Public Service Pension Plan Account	70.4%	70.6%
Canadian Forces Pension Plan Account	21.9%	21.7%
Royal Canadian Mounted Police Pension Plan Account	7.7%	7.7%

Expenses are financed by the Public Service Pension Plan Account, which is reimbursed by the other Plan Accounts on a quarterly basis.

(b) Operating expenses

Operating expenses allocated to this Plan Account consist of the following:

	2003	2002
	(\$,000)	(\$,000)
Salaries and benefits	350	212
General operating expenses	245	181
Professional and consulting fees	98	115
	693	508

Further details of Operating expenses are shown in the PSP Investments Financial Statements.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Auditors' Report

To the Board of Directors of
Public Sector Pension Investment Board

We have audited the Balance Sheet and the Statement of Investment Portfolio of the Public Sector Pension Investment Board ("PSP Investments") as at March 31, 2003 and the Statements of Net Income (Loss) from Operations and of Changes in Net Assets for the year then ended. These financial statements are the responsibility of PSP Investments management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of PSP Investments and the investments held as at March 31, 2003 and the results of its operations and of changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of PSP Investments that have come to our attention during our audit of the financial statements, have, in all significant respects, been in accordance with the *Public Sector Pension Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by PSP Investments' management pursuant to paragraph 35 (1) (c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

Chartered Accountants

Montréal, Québec
May 1, 2003

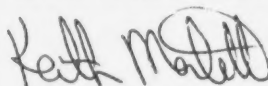
PUBLIC SECTOR PENSION INVESTMENT BOARD

Balance Sheet

As at March 31

	2003 (\$,000)	2002 (\$,000)
ASSETS		
Investments - at fair value (Note 2)	8,101,641	5,623,975
Cash	-	24,633
Other assets (Note 3)	2,031	264
	8,103,672	5,648,872
LIABILITIES		
Bank overdraft (Note 4)	2,973	-
Accounts payable and accrued liabilities	4,987	2,233
	7,960	2,233
NET ASSETS	8,095,712	5,646,639
NET ASSETS REPRESENTED BY		
Public Service Pension Plan Account	5,756,832	3,975,216
Canadian Forces Pension Plan Account	1,723,935	1,236,048
Royal Canadian Mounted Police Pension Plan Account	614,945	435,375
	8,095,712	5,646,639

On behalf of the Board of Directors:


Keith Martell
Director and Chair of the Audit and Conflicts Committee**Statement of Changes in Net Assets**

For the year ended March 31

	2003 (\$,000)	2002 (\$,000)
NET ASSETS, BEGINNING OF YEAR	5,646,639	2,510,768
CHANGES IN NET ASSETS		
Fund transfers (Note 5)	3,382,074	2,996,362
Net income (loss) from operations	(933,001)	139,509
NET ASSETS, END OF YEAR	8,095,712	5,646,639

PUBLIC SECTOR PENSION INVESTMENT BOARD

Statement of Net Income (Loss) from Operations

For the year ended March 31

	2003 (\$,000)	2002 (\$,000)
INVESTMENT INCOME AND GAINS (LOSSES)		
Interest and dividends	247,218	125,190
Net realized gains (losses) (Note 7)	(163,819)	(412,404)
Change in unrealized appreciation (depreciation) in value of investments	(1,003,410)	434,009
	(920,011)	146,795
EXPENSES		
Operating expenses (Note 8a)	8,997	6,535
External investment management fees	3,993	751
	12,990	7,286
NET INCOME (LOSS) FROM OPERATIONS (Note 9)	(933,001)	139,509

Statement of Investment Portfolio

As at March 31

	2003			2002		
	Cost	Fair Value	% of Portfolio (At Fair Value)	Cost	Fair Value	% of Portfolio (At Fair Value)
Investments (Note 2)	(\$,000)	(\$,000)		(\$,000)	(\$,000)	
CANADIAN EQUITIES						
PSP Canadian Equities Fund						
Active management	1,599,043	1,478,865	18.2	221,627	224,310	4.0
Indexed management	1,885,369	1,683,141	20.8	1,601,915	1,754,314	31.2
	3,484,412	3,162,006	39.0	1,823,542	1,978,624	35.2
FOREIGN EQUITIES						
PSP Foreign Equities Fund						
Active management	1,361,247	1,164,159	14.4	354,428	365,527	6.5
Indexed management	1,174,264	916,272	11.3	1,264,202	1,325,799	23.5
	2,535,511	2,080,431	25.7	1,618,630	1,691,326	30.0
FIXED INCOME						
PSP Fixed Income Fund						
Active management	1,273,561	1,285,882	15.9	1,174,030	1,175,227	20.9
Indexed management	1,363,255	1,328,868	16.4	636,317	611,200	10.9
	2,636,816	2,614,750	32.3	1,810,347	1,786,427	31.8
CASH EQUIVALENTS						
PSP Cash Equivalents Fund	244,454	244,454	3.0	167,598	167,598	3.0
	8,901,193*	8,101,641*	100.0%	5,420,117*	5,623,975*	100.0%

* Includes investment receivables of \$57.5 million (2002 - \$81.2 million) and investment payables of \$83.4 million (2002 - \$84.1 million) pertaining to pending trades for a net payable of \$25.9 million (2002 - \$2.9 million).

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements*For the year ended March 31, 2003***ORGANIZATION**

The Public Sector Pension Investment Board ("PSP Investments") was formed pursuant to the *Public Sector Pension Investment Board Act* (the "Act") with a mandate to invest in financial markets the contributions to the Public Service, Canadian Forces and Royal Canadian Mounted Police pension plans. Prior to the implementation of the provisions of the Act, the balances of the plans were credited with a rate of interest based on long-term Government of Canada bonds.

The Public Service, Canadian Forces and Royal Canadian Mounted Police Pension Funds were established by amendments to the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* and the *Royal Canadian Mounted Police Superannuation Act* ("the Superannuation Acts"), to receive contributions and make benefit payments in respect of member service after April 1, 2000. The excess of contributions over benefits is transferred, by each Pension Fund, to their respective PSP Investments-Plan Account for investment.

PSP Investments is responsible for managing amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plans established under the *Superannuation Acts*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

These financial statements present the financial position and operations of PSP Investments as they pertain to the investment of the excess funds transferred to it from the Public Service, Canadian Forces and Royal Canadian Mounted Police Pension Funds. Accordingly, they do not reflect all of the assets, or the details of the pension contributions, payments and liabilities of all three Pension Funds. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act.

Plan Accounts

PSP Investments maintains records of each Pension Funds' net contributions, as well as, the allocation of its investments and the results of its operations to each of the Plan Accounts.

Separate financial statements for each Plan Account have been published.

Valuation of investments

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair values of investments are determined as follows:

- (a) Short-term deposits are recorded at cost which, together with accrued interest income, approximates fair value.
- (b) Market prices for equities and unit values for pooled funds are used to represent the fair value of investments. Unit values reflect the quoted market prices of the underlying securities.
- (c) Fixed Income securities are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using an appropriate interest rate curve with a spread associated with the credit quality of the issuer.

Income recognition

Investment income is recorded on the accrual basis and represents realized gains and losses on the disposal of investments, change in unrealized appreciation (depreciation) on investments held at the end of the year, interest income and dividends. These income items include the related distributions from pooled funds.

Translation of foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at the end of the year are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses on foreign exchanges are included in investment income.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements

For the year ended March 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fund transfers**

Amounts received from each Pension Fund are recorded on a cash basis in their respective Plan Account.

Income Taxes

PSP Investments is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

Use of estimates

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results may differ from estimates.

2. INVESTMENTS

The Statement of Investment Portfolio provides details of investments held as at March 31, 2003.

(a) Investment Policy

PSP Investments has established a Statement of Investment Policies, Standards and Procedures, (the "Investment Policy") which sets out the manner in which the assets shall be invested for the three Plan Accounts. Asset mix policy and benchmarks as at March 31, 2003 were as follows:

Asset Class	Policy Mix	Benchmark
Canadian Equities	35.0%	S&P/TSX
Foreign Equities	30.0%	S&P 500, MSCI EAFE
Fixed Income	32.0%	SC Bond Universe
Cash Equivalents	3.0%	SC 91-day T-bill

Effective April 1st 2003, an amendment to the Investment Policy enables PSP Investments to hedge part of the foreign currency exposure.

(b) Foreign currency exposure

PSP Investments is exposed to currency risk through holdings of securities and units in pooled funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying foreign currency exposures by currency as at March 31 were as follows:

Currency	2003		2002	
	Fair Value (\$,000)	% of Total	Fair Value (\$,000)	% of Total
US Dollars	1,223,964	58.9	971,426	57.4
Euro	315,711	15.2	270,284	16.0
British Pound	197,733	9.5	178,971	10.6
Yen	176,794	8.5	147,377	8.7
Others	164,628	7.9	123,268	7.3
	2,078,830	100.0%	1,691,326	100.0%

In accordance with the Investment Policy, foreign currency exposures are not hedged.

The fair value of PSP Foreign Equities Fund includes \$1,601 thousand of Canadian dollars (2002 - Nil) which are not included in the foreign currency exposure.

In April 2003, a program was initiated to hedge up to 50% of the fair value of all US dollar denominated investments held in the PSP Foreign Equities Fund.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements

For the year ended March 31, 2003

2. INVESTMENTS (continued)**(c) PSP Canadian Equities Fund - 10 largest holdings**

Company Name	Fair Value (\$,000)	% of PSP Canadian Equities Fund
1 Royal Bank of Canada	214,061	6.8
2 Bank of Nova Scotia	160,955	5.1
3 Encana Corporation	130,589	4.1
4 Toronto Dominion Bank	116,426	3.7
5 BCE Inc.	115,333	3.6
6 Bank of Montreal	108,614	3.4
7 Petro Canada	82,217	2.6
8 Sun Life Financial Services of Canada Inc.	80,615	2.5
9 Transcanada Pipelines	75,699	2.4
10 Barrick Gold Corporation	74,357	2.4
Total 10 largest Holdings	1,158,866	36.6%

Some of the holdings shown above are held through Indexed Pooled Fund participation.

(d) PSP Foreign Equities Fund - 10 largest holdings

Company Name	Fair Value (\$,000)	% of PSP Foreign Equities Fund
1 Citigroup Inc.	37,486	1.8
2 Exxon Mobil Corporation	33,765	1.6
3 Microsoft Corporation	33,417	1.6
4 General Electric Company	33,241	1.6
5 Pfizer Inc.	31,389	1.5
6 Vodafone Group Plc	31,324	1.5
7 Wal-Mart Stores Inc.	29,810	1.4
8 Royal Dutch Petroleum Company	24,587	1.2
9 United Health Group Inc.	22,982	1.1
10 Johnson & Johnson	22,756	1.1
Total 10 largest Holdings	300,757	14.4%

Some of the holdings shown above are held through Indexed Pooled Fund participation.

(e) PSP Fixed Income Fund

The PSP Fixed Income Fund holds securities invested in Canada as follows:

	Fair Value (\$,000)	% of PSP Fixed Income Fund
Government of Canada	1,045,201	40.0
Provincial	575,375	22.0
Municipal	3,860	0.1
Corporate	987,234	37.8
Cash	3,080	0.1
Total of PSP Fixed Income Fund	2,614,750	100.0%

Some of the holdings shown above are held through Indexed Pooled Fund participation.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements

For the year ended March 31, 2003

3. OTHER ASSETS

Other assets as at March 31 consist of the following:

	2003 (\$,000)	2002 (\$,000)
Accrued Income	-	17
Fixed assets	1,287	-
Other assets	744	247
	2,031	264

4. BANK OVERDRAFT

The bank overdraft is an infrequent occurrence and arises from temporary requirements to settle security purchases prior to receiving the contribution from one of the Pension Funds. The amount is repaid within two business days.

5. FUND TRANSFERS

During the year, PSP Investments received \$3,382.1 million (2002 - \$2,996.3 million) of transfers from the three Pension Funds. The transfers result from net current employer and employee contributions to their respective Pension Plan.

The breakdown of the fund transfers for the year ended March 31 is as follows:

	2003 (\$,000)	2002 (\$,000)
Public Service Pension Fund	2,442,872	2,086,332
Canadian Forces Pension Fund	687,973	674,012
Royal Canadian Mounted Police Pension Fund	251,229	236,018
Total Fund Transfers	3,382,074	2,996,362

6. INVESTMENT PERFORMANCE

Portfolio and benchmark returns for the year ended March 31 were as follows:

	2003		2002		
	Portfolio Returns	Benchmark Returns	Portfolio Returns	Benchmark Returns	
Canadian Equities	(18.6)%	(17.6)%	4.7%	4.9%	S&P/TSX
Foreign Equities	(30.5)%	(29.9)%	(3.3)%	(2.6)%	S&P 500 & MSCI EAFE
Fixed Income	9.4%	9.2%	5.3%	5.1%	SC Bond Universe
Cash Equivalents	3.2%	2.7%	4.0%	3.7%	SC 91-day T-bill
Total Return	(13.5)%	(12.9)%	2.7%	2.8%	

The total benchmark return aggregates the asset class benchmark returns according to the weights specified in the Investment Policy, as disclosed in Note 2 (a).

Returns have been calculated in accordance with the mandatory requirements set forth by the Association for Investment Management and Research (AIMR). Returns are presented gross of expenses.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements*For the year ended March 31, 2003***7. NET REALIZED GAINS (LOSSES)**

The realized losses of \$163,819 thousand (2002 - losses of \$412,404 thousand) includes foreign currency gains of \$1,425 thousand (2002 - losses of \$1,408 thousand).

On October 2nd 2001, PSP Investments created the PSP Funds and the units in SSgA pooled funds previously held in the name of the three Plan Accounts, were transferred to the PSP Funds. This deemed disposition caused previously *Change in unrealized depreciation in value of investments* to become realized losses in the *Statement of Net Income (Loss) and Accumulated Net Income (Loss) from Operations* for the three Plan Accounts. This had no impact on the Plan Accounts, except for bringing the investments cost values closer to their fair values at that time.

8. EXPENSES**(a) Operating expenses**

Operating expenses consist of the following:

	2003	2002
	(\$,000)	(\$,000)
Salaries and benefits	4,544	2,756
Office supplies and equipment	1,364	996
Professional and consulting fees	1,273	1,491
Occupancy costs	570	336
Remuneration earned by Directors	425	339
Custody and fund administration	351	116
Communication expenses	151	248
Travel and accommodation for Director's meetings	150	160
Depreciation of fixed assets	105	-
Other operating expenses	64	93
	8,997	6,535

Total remuneration earned by Directors includes 1) an annual retainer of \$40,000 for the Board Chairperson and of \$16,000 for each Director; 2) an annual retainer of \$5,000 for each committee chair; 3) Board and committee meeting fees of \$1,000 per meeting and; 4) a travel time meeting fee of \$1,000 if distance to and from the meeting is greater than 1,000 km from the director's primary residence. Separate fees are not paid for Investment Committee meetings when they are held as a committee of the whole during Board meetings. The Board Chairperson is not eligible for committee meeting fees.

Directors of PSP Investments come from various regions of the country and accordingly they incur travel and accommodation expenses in attending meetings of the Board and committees.

PUBLIC SECTOR PENSION INVESTMENT BOARD

Notes to the Financial Statements

For the year ended March 31, 2003

8. EXPENSES (continued)

(b) Salaries and benefits

Included in salaries and benefits is compensation earned by executive officers. The total compensation earned during the fiscal year by the executive officers was as follows:

Employee / Position	Year	Annual Base Salary	Annual Bonus ³	Long Term Incentive Plan ³	Benefits ⁴
		(\$)	(\$)	(\$)	(\$)
Adel Sarwat ¹	2003	305,000	45,800	-	47,000
President and Chief Executive Officer	2002	275,000	143,000	213,000	50,500
Danielle G. Morin ²	2003	195,000	88,800	-	29,000
Chief Financial Officer	2002	181,400	82,600	53,500	26,800

¹ The President and Chief Executive Officer left PSP Investments on March 20, 2003 and is entitled to receive \$886,000 of compensation. In addition, PSP Investments covered the expenses related to his departure.

² The Chief Financial Officer commenced employment on April 6, 2001, and in addition to the above, was awarded a signing bonus of \$30,000 in fiscal year 2002.

³ Bonus awards include short-term and long-term components and are based on the achievement of agreed objectives. PSP Investments has established a new program for the long-term bonus which was implemented this year. Consequently, a long term bonus for fiscal year 2002 has been paid to close the previous program.

⁴ Benefits include other miscellaneous non-cash remuneration. For fiscal year 2002 the benefits included a premium for long-term disability coverage which is now integrated in PSP Investments Group Insurance coverage. In addition to the above, the executive officers are covered by a contributory defined benefit pension plan which provides them with a pension benefit of 2% of the best 3 years average earnings for each year of service.

9. ALLOCATION OF NET INCOME (LOSS) FROM OPERATIONS

The allocation of the net income (loss) from operations of PSP Investments to each Plan Account is as follows:

(a) Investment Income and Gains (Losses)

The investment income has been allocated according to the number of units of PSP funds held by each Plan Account.

(b) Expenses

The Act requires that the costs of operation of PSP Investments be charged to the three plans for which it provides investment services. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged in consultation with the Minister of National Defence and the Solicitor General of Canada. An allocation policy has been developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, and allocates, on a quarterly basis, operating expenses excluding custodial fees, based upon the asset value of each Plan Account.

Operating expenses excluding custodial fees have been allocated as follows:

	2003	2002
Public Service Pension Plan Account	70.4%	70.6%
Canadian Forces Pension Plan Account	21.9%	21.7%
Royal Canadian Mounted Police Pension Plan Account	7.7%	7.7%

Expenses are paid by PSP Investments by way of an advance from the Public Service Pension Plan Account, which is reimbursed by the other Plan Accounts on a quarterly basis.



**Queens
Quay
West
Land
Corporation**



Management Responsibility for Financial Reporting

The financial statements of Queens Quay West Land Corporation have been prepared by management of the Corporation in accordance with Canadian generally accepted accounting principles.

Management maintains financial and management reporting systems which include appropriate controls to provide reasonable assurance that the Corporation's assets are safeguarded, to facilitate the preparation of relevant, reliable and timely financial information and to ensure that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and by-laws of the Corporation.

Where necessary, management uses judgement to make estimates required to ensure fair and consistent presentation of this information.

The Board of Directors is composed of three directors, none of whom are employees of the Corporation. The Board of Directors has the responsibility to review and approve the financial statements, as well as overseeing management's performance of its financial reporting responsibilities. The Board of Directors of the Corporation has reviewed the financial statements with management and the auditors and has approved them.

The auditors are responsible for auditing the financial statements and have issued a report thereon.

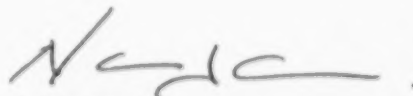
All other financial and operating data included in the Annual Report are consistent, where appropriate, with information contained in the financial statements.



Robert Howald

Senior Vice President

May 9, 2003



Norm Jarus

Vice President Operations

May 9, 2003





AUDITOR'S REPORT

To the Minister of Transport

I have audited the balance sheet of Queens Quay West Land Corporation as at March 31, 2003 and the statements of operations and deficit and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and the articles and the by-laws of the Corporation.

Alain Boucher, CA
Audit Principal
for the Auditor General of Canada

Ottawa, Canada

May 9, 2003

QUEENS QUAY WEST LAND CORPORATION

Balance Sheet

As at March 31

	Note	2003	2002
Assets			
Current assets:			
Cash and short-term investments	3	\$ 4,501,881	\$ 5,727,970
Amounts receivable and other		<u>147,727</u>	<u>173,393</u>
		<u>4,649,608</u>	<u>5,901,363</u>
Non-current assets:			
Properties		<u>1</u>	<u>1</u>
		<u>1</u>	<u>1</u>
		<u>\$ 4,649,609</u>	<u>\$ 5,901,364</u>
Liabilities and Shareholder's Deficiency			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 947,293	\$ 1,183,363
Obligation for parking garage upgrade	6	1,743,436	1,750,000
Loan from Canada	4	31,300,000	31,300,000
Shareholder's deficiency:			
Share capital	5	1	1
Contributed capital		1,000,000	1,000,000
Deficit		<u>(30,341,121)</u>	<u>(29,332,000)</u>
		<u>(29,341,120)</u>	<u>(28,331,999)</u>
Contingencies	8		
		<u>\$ 4,649,609</u>	<u>\$ 5,901,364</u>

See accompanying notes to financial statements

On behalf of the Board:

David F. Ellis Director

Anne S. Morash Director

QUEENS QUAY WEST LAND CORPORATION

Statement of Operations and Deficit

For the year ended March 31

	Note	2003	2002
CORPORATE AND COMMERCIAL OPERATIONS:			
REVENUES:			
Parking income		\$ 82,792	\$ 86,640
Commercial income	11	848,581	760,021
Interest		129,904	825,778
		<u>1,061,277</u>	<u>1,672,439</u>
EXPENSES:			
Commercial management	11	1,838,856	2,238,622
Corporate administration		231,542	258,719
		<u>2,070,398</u>	<u>2,497,341</u>
NET CORPORATE AND COMMERCIAL LOSS		<u>(1,009,121)</u>	<u>(824,902)</u>
DEVELOPMENT OPERATIONS:			
Land sale	6	-	29,124,013
Obligation for parking garage upgrade	6	-	(1,750,000)
Payment pursuant to the Implementation Agreement		-	(10,638,801)
Net development income		<u>-</u>	<u>16,735,212</u>
Net parking income assigned to the Harbourfront Foundation	7	866,790	852,573
Contributions to the Harbourfront Foundation	7	<u>(866,790)</u>	<u>(852,573)</u>
		<u>-</u>	<u>-</u>
Parliamentary appropriation from Canada for operating contributions to the Harbourfront Centre	9	4,000,000	4,000,000
Operating contributions to the Harbourfront Centre	9	<u>(4,000,000)</u>	<u>(4,000,000)</u>
		<u>-</u>	<u>-</u>
Net (loss) income for the year		<u>(1,009,121)</u>	<u>15,910,310</u>
Deficit, beginning of year		<u>(29,332,000)</u>	<u>(45,242,310)</u>
DEFICIT, END OF YEAR		<u>\$ (30,341,121)</u>	<u>\$ (29,332,000)</u>

See accompanying notes to financial statements

QUEENS QUAY WEST LAND CORPORATION

Statement of Cash Flow

For the year ended March 31

	Note	2003	2002
OPERATING ACTIVITIES:			
Net (loss) income for the year		\$ (1,009,121)	\$ 15,910,310
Decrease in deposit on future sale of property		-	(8,930,000)
Decrease in receivables and other assets		25,666	410,874
Increase (decrease) in accounts payable and accrued liabilities		(236,070)	414,704
Increase (decrease) in obligation for parking garage upgrade		(6,564)	1,750,000
Net parking income assigned to the Harbourfront Foundation	7	866,790	852,573
Contributions to the Harbourfront Centre	9	(4,000,000)	(4,000,000)
Contributions to the Harbourfront Foundation	7	(866,790)	(852,573)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		(5,226,089)	5,555,888
FINANCING ACTIVITIES:			
Repayment of loan from Canada		-	(14,500,000)
Parliamentary appropriation from Canada for operating contributions to the Harbourfront Centre	9	4,000,000	4,000,000
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		4,000,000	(10,500,000)
Decrease in cash and short-term investments		(1,226,089)	(4,944,112)
Cash and short-term investments, beginning of year		5,727,970	10,672,082
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR		\$ 4,501,881	\$ 5,727,970

See accompanying notes to financial statements

QUEENS QUAY WEST LAND CORPORATION

Notes to Financial Statements

March 31, 2003

1. The Corporation:

Queens Quay West Land Corporation (the "Corporation") was incorporated under the *Canada Business Corporations Act* on December 21, 1984 and is a Crown corporation listed under Part I of Schedule III of the *Financial Administration Act*. Legislation dealing with the sale of the Corporation's assets and the subsequent dissolution of the Corporation received royal assent in November 1991. The Corporation is exempt from corporate income tax.

The Corporation operates the Harbourfront site (the "Site") under a Management Agreement with Canada. The Site, totaling approximately 100 acres, was originally held by Canada. In recent years, much of the land has been conveyed to the City of Toronto with the intended use being parkland and public infrastructure. Of the original 100 acre site, the Corporation currently holds only one remaining property, the eight story parking garage located at 200 Queens Quay West. The Corporation also has interests in the subsurface lands below YQ3 and in three waterlots.

The Corporation's mandate is to provide solutions to all outstanding business issues and sell all the remaining assets. This will allow Queens Quay West Land Corporation to be wound up. The Corporation intends to fulfill its obligations and commitments, including those pursuant to the Management Agreement with the Government. The Management Agreement provides for the management of the Harbourfront site by Queens Quay West Land Corporation. The Corporation is managed on a fee-for-service basis by Canada Lands Company CLC Limited.

Agreements with Canada permit the sale or conveyance by the Corporation of certain real estate assets with the proceeds to be used to assist the Corporation in discharging its obligations. The Corporation has received significant financial support from Canada and continues to be dependent on Canada to ensure that the Corporation's obligations and commitments are met as they come due.

2. Accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the Corporation are as follows:

(a) Revenue recognition:

Revenues from commercial activities are recognized as the related services are provided. Revenues from the sale of property are recorded at the closing date specified in the agreement of purchase and sale.

(b) Short-term investments:

Short-term investments are carried at the lower of cost or market.

QUEENS QUAY WEST LAND CORPORATION

Notes to Financial Statements

March 31, 2003

(c) **Measurement uncertainty:**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

3. Short-term investments:

The Corporation invests in the short-term money market. The overall portfolio yield for the year was 2.58% (2002 – 3.5%). All instruments held in short-term investments are rated R1-low or better by the Dominion Bond Rating Service. The average term to maturity is 151 days (2002 – 42 days). The fair value of short-term investments as at March 31, 2003 and 2002 approximated the net book value.

4. Loan from Canada:

The loan from Canada is non-interest bearing and is due and payable March 31, 2004. The Corporation may prepay the loan principal at anytime without penalty upon fourteen days' prior notice. The fair value of the loan is \$30.0 million (2002 – \$29.0 million) on a discounted basis. At March 31, 2003 the face value of the loan exceeded the value of the Corporation's assets. However, included in these assets is one property YQ4 (parking garage) carried at a nominal value of \$1. It is management's estimate that the net proceeds from the sale of the properties will not be sufficient to pay the entire balance of the loan from Canada.

5. Share capital:

The authorized share capital of the Corporation consists of 500,000 (2002 – 500,000) common shares without par value of which 215,000 (2002 – 215,000) shares are issued and fully paid for consideration of \$1 (2002 – \$1).

6. Obligation for Parking Garage Upgrade:

The Corporation sold the YQ4 vacant land adjacent to the parking garage in the year 2001-2002. As stipulated in the sale agreement, the Corporation has the obligation to make improvements to the façade of parking garage to integrate it with the adjacent residential development. A provision of \$1.75 million based on the estimated costs of these improvements was made in the year 2001-2002. During the year 2002-2003, consulting fees of \$6,564 for the parking garage façade design works were paid and applied against the provision.

QUEENS QUAY WEST LAND CORPORATION

Notes to Financial Statements

March 31, 2003

7. Contributions to the Harbourfront Foundation:

The Harbourfront Foundation is a charitable foundation that was formed to receive funds and make ongoing contributions to support the public programming activities of the Harbourfront Centre. As approved by Treasury Board and reflected in the statement of operations, the Corporation has retained ownership of the YQ4 parking garage and contractually assigned the net parking income for the period October 1, 1996 to March 31, 2002 to the Harbourfront Foundation. An amended parking garage management agreement dated March 31, 2002 was executed whereby the Harbourfront Foundation is permitted to retain the income from the parking garage operations up to March 31, 2003.

In 1997, the Corporation contributed to the Harbourfront Foundation its interest in a vendor-take-back (VTB) debenture with a principal amount of \$8.0 million. The debenture is repayable by monthly installments in the amount of \$37,815 (\$453,780 annually) from November 1, 1997 to November 1, 2007. The balance of the debenture of approximately \$7.4 million is due and payable on November 1, 2007.

8. Contingencies:

The Corporation is a defendant in certain lawsuits originating in the normal course of business. In the opinion of management, these actions will not have a material adverse effect on the financial position of the Corporation.

9. Parliamentary appropriation:

The Government of Canada provides funding to Harbourfront Centre so that it can continue to deliver cultural programs. Treasury Board has authorized Public Works and Government Services Canada (PWGSC) to provide the Corporation with \$4.0 million for 2002-2003 (\$4.0 million for 2001-2002). During the year, the appropriation authority was transferred from PWGSC to Transport Canada. The Corporation is an authorized delivery vehicle for funding to the Harbourfront Centre.

10. Lease commitment:

The Corporation is committed under a 15-year lease agreement ending June 30, 2003. The remaining minimum lease payments, excluding operating costs and realty taxes, totalled \$145,188 at year-end.

11. Operating loss from Harbourfront Antique Market:

In 1988, the Corporation entered into a 15-year head lease with the landlord for the premises currently occupied for the operation of the Harbourfront Antique Market. The Corporation sublet the premises to a subtenant for the same period. On July 25, 2001,

QUEENS QUAY WEST LAND CORPORATION

Notes to Financial Statements

March 31, 2003

the Corporation negotiated a surrender of the sublease and took over operation of the antique market with the objective of implementing an exit strategy prior to the June 2003 termination of the head lease. The operating loss from Harbourfront Antique Market for the year 2002-2003 is \$990,275 including a provision of \$142,000 as a termination cost of the lease (2001-2002 - \$1,478,601).

12. Related Party Transactions:

The Corporation is related in terms of common ownership to all Government departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

In addition to transactions previously disclosed, during the year ended 31 March 2003:

- a) The Corporation paid management fees totalling \$246,000 (2002 - \$207,000) to a Crown corporation.
- b) The Corporation received audit services without charge from the Office of the Auditor General of Canada.

**Ridley
Terminals
Inc.**



FINANCIAL STATEMENTS

Management Responsibility

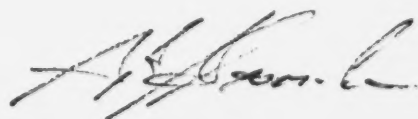
The accompanying financial statements of Ridley Terminals Inc., and all information in the annual report pertaining to the Company, are the responsibility of management, and have been approved by the Board of Directors.

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise, because they include some amounts that are based on estimates and judgements. Management has determined such amounts on a reasonable basis. Financial information used in the annual report is consistent with that in the financial statements.

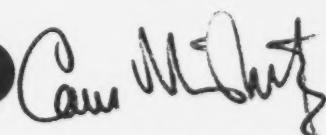
Management maintains a system of internal accounting and administrative controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through an Audit Committee consisting of three non-management members. The Audit Committee meets regularly with management and with the external auditors to review the scope and result of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board of Directors for approval.

These financial statements have been independently audited in accordance with Canadian generally accepted auditing standards by the Company's external auditor, the Auditor General of Canada, and her report is included with these financial statements.



Gregory A. Slocombe
President & Chief Operating Officer



Cameron D. McIntyre, CA
Chief Financial Officer

RIDLEY TERMINALS INC.

Auditor's Report

To the Minister of Transport

I have audited the balance sheet of Ridley Terminals Inc. as at December 31, 2002 and the statements of income and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act* I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Company that have come to my notice during my audit of the financial statements have, in all respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, the *Canada Marine Act* and regulations, and the articles and by-laws of the Company.



Roger Simpson, FCA
Principal
for the Auditor General of Canada

Edmonton, Canada
January 31, 2003



FINANCIAL STATEMENTS

RIDLEY TERMINALS INC.

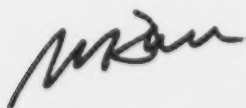
Balance Sheet

December 31
(in thousand dollars)

	<u>2002</u>	<u>2001</u>
	\$	\$
ASSETS		
Current assets		
Cash	1,572	2,199
Accounts receivable (Note 4)	1,806	1,021
Inventory	2,813	2,912
Prepaid expenses	<u>117</u>	<u>77</u>
	6,308	6,209
Capital assets (Notes 3 and 5)	9,360	15,250
Accrued pension benefit asset (Note 6)	<u>827</u>	<u>990</u>
	<u>16,495</u>	<u>22,449</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2,018	1,650
Interest payable	<u>35</u>	<u>35</u>
	2,053	1,685
Other long-term liabilities (Note 7)	442	207
Long-term debt (Note 8)	<u>63,995</u>	<u>63,994</u>
	<u>66,490</u>	<u>65,886</u>
SHAREHOLDER'S DEFICIENCY		
Capital stock (Note 9)	136,042	136,042
Deficit	<u>(186,037)</u>	<u>(179,479)</u>
	<u>(49,995)</u>	<u>(43,437)</u>
	<u>16,495</u>	<u>22,449</u>
Contingencies (Note 13)		

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,



Chairman



Director

Statement of Income and Deficit

Year Ended December 31
(in thousand dollars)

	<u>2002</u>	<u>2001</u>
	\$	\$
Revenues (Note 11)	<u>14,530</u>	<u>12,140</u>
Expenses		
Salaries, wages and benefits	6,189	6,079
Municipal taxes	1,146	1,053
Equipment operations and maintenance	945	841
Other services	868	857
Amortization and restoration costs	661	566
Site utilities	647	677
Lease rental (Note 12)	621	749
Insurance	382	255
Office services and supplies	<u>248</u>	<u>254</u>
	<u>11,707</u>	<u>11,331</u>
Income before investment income, interest expenses and write down of capital assets	<u>2,823</u>	<u>809</u>
Investment income	30	124
Interest on long-term debt	(3,298)	(3,358)
Other interest expense	<u>(13)</u>	<u>(13)</u>
	<u>(3,281)</u>	<u>(3,247)</u>
Loss before write down of capital assets	(458)	(2,438)
Write down of capital assets (Note 3)	<u>(6,100)</u>	<u>-</u>
Net loss	(6,558)	(2,438)
Deficit, beginning of year	<u>179,479</u>	<u>(177,041)</u>
Deficit, end of year	<u><u>(186,037)</u></u>	<u><u>(179,479)</u></u>

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows

Year Ended December 31

(in thousand dollars)

	<u>2002</u>	<u>2001</u>
	\$	\$
OPERATING ACTIVITIES		
Net loss	(6,558)	(2,438)
Non-cash items		
(Gain) Loss on disposal of capital assets	(3)	2
Amortization of capital assets	462	497
Accrual of restoration costs	199	69
Write down of capital assets	6,100	-
Changes in working capital items		
Accounts receivable	(785)	10
Inventory	99	57
Prepaid expenses	(40)	16
Accounts payable and accrued liabilities	368	(521)
Accrued pension benefit asset	163	(74)
Cash flows from (used in) operating activities	<u>5</u>	<u>(2,382)</u>
INVESTING ACTIVITIES		
Additions to capital assets	(672)	(137)
Other	39	3
Cash flows used in operating activities	<u>(633)</u>	<u>(134)</u>
FINANCING ACTIVITIES		
Issue of long-term debt	1	10
Cash flows from financing activities	<u>1</u>	<u>10</u>
Net decrease in cash	(627)	(2,506)
Cash, beginning of year	2,199	4,705
Cash, end of year	<u>1,572</u>	<u>2,199</u>
Supplementary disclosure		
Interest paid	3,287	3,348

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

December 31, 2002

(amounts in tables are in thousand dollars)

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The Company, incorporated under the *Canada Business Corporations Act* on December 18, 1981, operates a bulk commodity facility on Ridley Island in Prince Rupert, British Columbia. On June 11, 1998, the *Canada Marine Act* received Royal Assent. This Act came into force on November 1, 2000, at which time the *Canada Ports Corporation Act* was repealed and the Canada Ports Corporation was dissolved. Under the *Canada Marine Act*, Ridley Terminals Inc. became a parent Crown Corporation named in Part I of Schedule III of the *Financial Administration Act*. The Company is a Federal Crown Corporation exempt from income tax.

2 - SIGNIFICANT ACCOUNTING POLICIES**Accounting estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

Revenue recognition

Throughput revenue is recognized at 50% of the contracted throughput rate at the time the coal is received at the terminal facility. The remaining 50% is recognized at the time of ship loading.

Inventory valuation

Inventory consists of supplies, consumables and repair parts. Inventory is valued at the lower of average cost and replacement cost.

Amortization

The terminal facility includes all costs incurred during construction (including the associated costs of engineering, administration, interest, insurance and site rental) and capital additions thereafter. In 1990 and 2002, the recorded value of the terminal facility was written down. With the exception of the sulphur terminal assets, amortization is being recorded on the residual value using the straight-line basis over 34 years. No amortization has been recorded on the sulphur terminal assets as they are not complete and not in use.

Other assets are amortized over their useful lives according to the straight-line method and at the following annual rates:

Machinery and equipment	10% and 20%
Office furniture and equipment	20% and 33.3%

Accrued restoration costs

Estimated future removal and site restoration costs are accrued on a straight-line basis over the expected remaining life of the terminal facility.

Employee pension plans

The Company accrues its obligation under employee pension plans net of plan assets. The Company has adopted the following policies:

- The cost of the pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- When the restructuring of a pension plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement; and
- The excess of the net actuarial gain (loss) over 10% of the greater of the pension obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by pension plans is 12 years.

FINANCIAL STATEMENTS

RIDLEY TERMINALS INC.

Notes to Financial Statements

December 31, 2002

(amounts in tables are in thousand dollars)

3 - FUTURE OPERATION OF THE COMPANY IN QUESTION

Under current operating conditions, Ridley Terminals Inc. is unable to generate sufficient revenues to meet its long term debt obligations. In 2003 those operating conditions are expected to deteriorate significantly with the pending loss of the Company's principal customer as described in note 11.

At December 31, 2002 the capital assets have been written down by \$6,100,000. The remaining value of \$9,360,000 is estimated to be the minimum residual recoverable value upon their disposition either intact as a going concern or on a salvage basis.

The Government of Canada guarantees the repayment of the Company's long term debt (see note 8). To assist in addressing the Company's situation, in January 2003 Transport Canada appointed a consulting firm to develop, manage and administer the process of soliciting proposals for the future of the Company.

4 - ACCOUNTS RECEIVABLE

	2002	2001
	\$	\$
Accounts receivable		
Trade	1,514	675
Other	52	106
Advance to an officer, secured by a mortgage, without interest or fixed repayment terms	240	240
	<u>1,806</u>	<u>1,021</u>

5 - CAPITAL ASSETS

	2002		2001	
	Cost	Accumulated amortization	Net	Net
	\$	\$	\$	\$
Terminal facility	237,915	229,369	8,546	14,993
Sulphur terminal	580	-	580	-
Machinery and equipment	1,986	1,811	175	238
Office furniture and equipment	1,528	1,469	59	19
	<u>242,009</u>	<u>232,649</u>	<u>9,360</u>	<u>15,250</u>

6 - ACCRUED PENSION BENEFIT ASSET

The Company provides pension benefits to its employees through defined benefit pension plans. The net expense for the year for the Company's defined benefit pension plans is \$239,000 (2001 - \$94,400).

Information about the Company's defined benefit pension plans as at December 31, 2002 in aggregate is as follows:

	2002	2001
	\$	\$
Accrued benefit obligations	13,345	12,647
Fair value of plan assets	13,406	14,378
Funded status - plan surplus	61	1,731
Unamortized transitional asset	(1,636)	(1,820)
Unamortized net actuarial loss	2,402	1,078
Accrued pension benefit asset	827	990

FINANCIAL STATEMENTS

RIDLEY TERMINALS INC.

Notes to Financial Statements

December 31, 2002

(amounts in tables are in thousand dollars)

6 - ACCRUED PENSION BENEFIT ASSET (Continued)

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows:

	2002	2001
	%	%
Discount rate	7.00	6.75
Expected long-term rate of return on plan assets	7.00	7.00
Rate of compensation increase	5.00	5.00
Indexation of pension	3.00	3.00

Other information about the Company's defined benefit plans is as follows:

	2002	2001
	\$	\$
Employer contribution	77	168
Employees' contributions	159	116
Benefits paid	201	198

7 - OTHER LONG-TERM LIABILITIES

	2002	2001
	\$	\$
Accrued restoration costs	406	207
Accrued lease obligation (Note 12)	36	-
	<u>442</u>	<u>207</u>

8 - LONG-TERM DEBT

	2002	2001
	\$	\$
Canadian dollar banker's acceptances, bearing interest at the banker's acceptance rate plus 0.095%, payable at maturity	3,995	3,994
Loan facility, bearing interest at 5.28%, payable in full on February 11, 2003	60,000	60,000
	<u>63,995</u>	<u>63,994</u>

The Company's credit facilities are as follows:

- Loan facility of \$75 million, repayable on February 11, 2003, bearing interest at 5.28% on the first \$60 million and bearing interest at the banker's acceptance rate plus 0.095% on the balance of the facility.
- Revolving line of credit facility of \$20 million, repayable on February 11, 2003, bearing interest at the banker's acceptance rate for Canadian bankers' acceptances plus 0.095%. The Company has not drawn on this facility.

The above facilities are guaranteed unconditionally by the Government of Canada to a maximum of \$95 million plus interest and other amounts up to \$6 million.

The Company has received the required approvals from the Government of Canada to extend the credit facilities by 364 days to February 10, 2004 at the banker's acceptance rate plus 0.27%.

9 - CAPITAL STOCK**Authorized**

2,000,000 common shares without par value

1,960,000 class "A", 18% non-cumulative redeemable preference shares with a stated value of \$25.55 per share

217,052 class "B", 20% non-cumulative redeemable preference shares with a stated value of \$230.00 per share

	2002	2001
	\$	\$
Issued and fully paid		
2,000 common shares	90,001	90,001
900,997 class "A" shares	23,021	23,021
100,089 class "B" shares	23,020	23,020
	<u>136,042</u>	<u>136,042</u>

FINANCIAL STATEMENTS

RIDLEY TERMINALS INC.

Notes to Financial Statements

December 31, 2002

(amounts in tables are in thousand dollars)

10 - RELATED PARTY TRANSACTIONS

Ridley Terminals Inc. is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Company enters into transactions with these entities in the normal course of business.

11 - ECONOMIC DEPENDENCE

The Company is dependent upon the production of a coal producer which provided 85.0% of the Company's revenue (2001 - 76.5%) under a throughput agreement terminating March 31, 2003. Management is continuing to consider its response to the impending closure of this coal producer's mine and to investigate various other options for the Company.

12 - COMMITMENTS

The Company leases land from the Prince Rupert Port Authority for its terminal facility. The original lease is for twenty-five years commencing in 1984 with a twenty-year renewal term. Lease payments are based on a rate per tonne of throughput which is subject to escalation provisions based on increases in the Consumer Price Index for each year.

The sulphur terminal lease is for 10 years commencing in 1999 with two ten-year renewal terms. Following the cancellation of its subleases with Sulphur Corporation of Canada Ltd., (see note 13) the Company's sulphur terminal lease was re-negotiated with the Prince Rupert Port Authority, with the result that lease payments will commence in 2004. Total minimum lease payments due under the lease are being expensed on a straight-line basis over the term of the lease. Lease expense in excess of lease payments is shown as an accrued lease obligation (see note 7)

At December 31, 2002, the future minimum lease payments were:

	\$
2003	-
2004	16
2005	120
2006	120
2007	120
2008	120
Total minimum lease payments	<u>496</u>

13 - CONTINGENCIES

During 2002 the Company's sub-lessee, Sulphur Corporation of Canada Ltd., became insolvent, and its sub-leases and other agreements with the Company were cancelled. At December 31, 2002 the Company is subject to various claims and legal proceedings by the creditors of Sulphur Corporation of Canada Ltd. Management is of the opinion, after review of the facts with legal counsel, that the outcome of these actions will not have a material financial impact on the Company's financial position, results of operations or liquidity.

14 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.



**Royal
Canadian
Mint**



Management report

The consolidated financial statements contained in this annual report have been prepared by Management in accordance with Canadian generally accepted accounting principles and the integrity and objectivity of the data in these financial statements are Management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

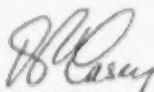
In support of its responsibility, Management has developed and maintains books of account, records, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, that assets are safeguarded and controlled, and that transactions of the Corporation and of its wholly-owned subsidiary are in accordance with the *Financial Administration Act* and regulations and, as appropriate, the *Royal Canadian Mint Act*, the by-laws of the Corporation and the charter and the by-laws of its wholly-owned subsidiary.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets with Management and the independent external auditor to review the manner in which these groups are performing their responsibilities and to discuss auditing, internal controls and other relevant financial matters. The Audit Committee has reviewed the consolidated financial statements with the external auditor and has submitted its report to the Board of Directors. The Board of Directors has reviewed and approved the consolidated financial statements.

The Corporation's external auditor, the Auditor General of Canada, audits the consolidated financial statements and reports to the Minister responsible for the Royal Canadian Mint.



Emmanuel Triassi
Chairperson and Acting President



Kevin Casey
Acting Vice-President, Administration and Finance

Ottawa, Canada
February 28, 2003



Auditor's report

To the Minister of Transport and Minister responsible for the Royal Canadian Mint:

I have audited the consolidated balance sheet of the Royal Canadian Mint as at December 31, 2002 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations and, as appropriate, the *Royal Canadian Mint Act*, the by-laws of the Corporation and the charter and the by-laws of its wholly-owned subsidiary.



Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
February 28, 2003

Consolidated balance sheet

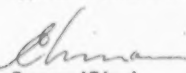
as at December 31 (in thousands of dollars)

	2002	2001
Assets		
Current		
Cash	\$ 1,452	\$ 5,237
Short-term investments (note 3)	17,460	-
Accounts receivable	13,761	17,356
Prepaid expenses	2,475	1,908
Deferred charges	-	4,333
Inventories (note 4)	24,675	33,708
	55,823	62,542
Property, plant and equipment (note 5)	91,971	95,064
	\$ 151,794	\$ 157,606
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 25,445	\$ 19,074
Current portion of loans (note 6)	5,782	6,023
Deferred revenues	2,526	1,581
	33,753	26,678
Long-term		
Deferred revenues	-	844
Loans (note 6)	23,358	27,747
Future tax liabilities (note 7)	93	2,502
Employee future benefits (note 8)	5,602	5,439
	29,053	36,532
Shareholder's equity		
Share capital (authorized and issued, 4,000 non-transferable shares)	40,000	40,000
Retained earnings	48,988	54,396
	88,988	94,396
	\$ 151,794	\$ 157,606

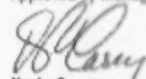
Commitments (note 11)

The accompanying notes are an integral part of these statements.

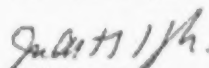
Approved on behalf of the Board of Directors


Emmanuel Triassi
Chairperson

Approved by Management


Kevin Casey
Acting Vice-President, Administration and Finance

Recommended for approval on behalf of the Audit Committee


Judith Kavanagh
Chair

Consolidated statement of operations and retained earnings

for the year ended December 31 (in thousands of dollars)

	2002	2001
Revenues	\$ 351,358	\$ 245,958
Cost of goods sold	303,015	191,110
Gross profit	48,343	54,848
Other operating expenses		
Marketing and Sales	25,107	26,322
Administration	21,808	20,983
Depreciation	8,061	6,927
	54,976	54,232
Income (loss) from operations	(6,633)	616
Net foreign exchange gains (losses)	440	(561)
Interest income	496	220
Interest expense	(1,063)	(2,134)
Loss before income tax	(7,500)	(1,859)
Income tax recovery (note 7)	(2,152)	(30)
Net loss	(5,400)	(1,829)
Retained earnings, beginning of year	54,396	56,225
Retained earnings, end of year	\$ 48,996	\$ 54,396

The accompanying notes are an integral part of these statements.

Consolidated cash flow statement

for the year ended December 31 (in thousands of dollars)

	2002	2001
Cash flows from operating activities		
Cash receipts from customers	\$ 354,514	\$ 271,042
Cash paid to suppliers and employees	(331,298)	(252,779)
Interest received	496	220
Interest paid	(1,863)	(2,707)
Income taxes	1,424	(1,468)
	23,272	14,308
Cash flows from investing activities		
Purchase of short-term investments	(17,440)	-
Purchase of property, plant and equipment	(4,967)	(5,109)
	(22,427)	(5,109)
Cash flows from financing activities		
Repayment of loans	(4,638)	(4,100)
Net increase (decrease) in cash	(3,783)	5,099
Cash at the beginning of year	5,237	138
Cash at the end of year	\$ 1,452	\$ 5,237

The accompanying notes are an integral part of these statements.

Notes to consolidated financial statements

December 31, 2002

1. Authority and objectives

The Mint was incorporated in 1969 by the *Royal Canadian Mint Act* to mint coins in anticipation of profit and carry out other related duties. The Mint is an agent Corporation of Her Majesty named in Part II of Schedule III to the *Financial Administration Act*. It produces all of the circulation coins used in Canada and manages the supporting distribution system for the Government of Canada. The Mint is one of the world's foremost producers of circulation, collector and bullion investments coins for the domestic and international marketplace. It is also one of the largest gold refiners in the world.

During the year, the Mint incorporated RCMH-MRCF Inc., a wholly-owned subsidiary, to hold the Mint's interest (50%) in TGM Specialty Services Inc., a joint venture with a private sector partner. TGM Specialty Services Inc.'s objective is to offer packaging products and services to domestic and international markets.

The Mint may borrow money from the Consolidated Revenue Fund or any other source, subject to the approval of the Minister of Finance with respect to the time and the terms and conditions. Since March 1999, following the enactment of changes to the *Royal Canadian Mint Act*, the aggregate of the amounts loaned to the Mint and outstanding at any time shall not exceed \$75 million.

2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the Corporation are:

a) Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary. Its interest in the joint venture is proportionately consolidated.

b) Short-term investments

Short-term investments consist of investments in money market instruments with terms to maturity of 12 months or less. These investments are carried at cost, which approximates market.

c) Inventories

Raw materials and supplies are valued at the lower of cost and replacement cost, cost being determined by the average cost method. Work in process and finished goods are valued at the lower of cost and net realizable value, cost being determined by the average cost method.

d) Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated under the straight-line method at the following annual rates:

Land improvements	2 1/2%
Buildings	2 1/2%
Equipment	10%
Hardware and software	20%

Notes to consolidated financial statements

December 31, 2002

e) Deferred revenues

Payments received in advance on sales are not recognized as revenue until the products are shipped.

f) Deferred charges

The cost incurred for specific projects in advance of sales are not recognized as expenses until the products are shipped.

g) Employee future benefits

i) Pension benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on multiple of the employees' required contributions, and may change over time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

ii) Other benefits

Employees are entitled to a severance benefit plan. These benefits are accrued as the employees render the services necessary to earn severance benefits. The cost of the benefits earned by employees is actuarially determined using the projected benefit cost method projected on services. The valuation of the liability is based upon a current market-related discount rate and other actuarial assumptions which represent management's best long-term estimates of factors such as future wage increases and employee resignation rates. The excess of any net actuarial gain (loss) over 10% of the benefit obligation is amortized over the remaining service period of active employees.

The Corporation is subject to the *Government Employees Compensation Act* and, therefore, is not mandatorily covered under any provincial workers' compensation act. As a self-insured employer, the Corporation is accountable for all such liabilities incurred since incorporation. Liability for workers' compensation benefits is actuarially determined based on known awarded disability and survivor pensions and other potential future awards in respect of accidents that occurred up to the value measurement date. The benefit entitlements are based on the respective legislations in effect on that date. An accrued post-employment benefit obligation representing the continuation of certain employer paid benefits for employees on long-term disability is also actuarially determined. The determination takes into account expected mortality, recoveries and health care and dental trend rates. The excess of the net actuarial gain (loss) over 10% of the obligation is amortized over a period of 10 years, which is consistent with the average duration of these liabilities.

h) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate in effect at the balance sheet date, or, when hedged, at rates prescribed by foreign currency contracts. Revenue and expense items are translated at average exchange rates during the year. All exchange gains and losses are included in determining net income for the year.

l) Income tax

Income tax expense is determined using the liability method, whereby the future income tax component is recognized on temporary differences using substantively enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences between the carrying values of assets or liabilities used for tax purposes and those used for financial reporting purposes arise in one year and reverse in one or more subsequent years. In assessing the realizability of future tax assets, management considers known and anticipated factors impacting whether some portion or all of the future tax assets will not be realized. To the extent that the realization of future tax assets is not considered to be more likely than not, a valuation allowance is provided.

j) Derivative financial instruments

The Corporation uses derivative financial instruments such as forward contracts and options to reduce the risk of loss due to adverse movements in foreign exchange and precious metal prices. The Corporation's policy is not to utilize derivative financial instruments for trading or speculation purposes.

A derivative must be designated and effective to be accounted for as a hedge. Effectiveness is achieved if the cash flows or fair values of the derivative substantially offset the cash flows of the hedged position and the timing is similar. Premiums paid or received with respect to derivatives are recognized based on the original hedge designation date.

Gains or losses related to derivatives that are hedges are deferred and recognized in the same period as the corresponding hedged positions. If derivative financial instruments are closed before planned delivery, gains or losses are recorded as deferred revenue or deferred charges and recognized on the planned delivery date.

k) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the year. The inventory valuation allowance, employee-related liabilities and estimated useful lives of plant and equipment are the most significant items where estimates are used. Actual results could differ from those estimated.

3. Short-term investments

In accordance with the Corporation's short-term investment policy, all investments in Corporate entities must be rated R-1 low or better by the Dominion Bond Rating Service (DBRS) and investments in banking entities must be rated AA or better by Moody's or Standard and Poors. The investments vehicles consist primarily of commercial paper. The overall portfolio yield as at December 31, 2002 was 2.99% (2001 – not applicable) and the average term to maturity is 26 days (2001 – not applicable). The fair market value of the investment portfolio at year-end approximates the book value.

Notes to consolidated financial statements

December 31, 2002

4. Inventories

(in thousands of dollars)

	2002	2001
Raw materials	\$ 7,744	\$ 8,405
Work in process	4,504	4,883
Finished goods	10,921	17,382
Supplies	1,506	3,038
	\$ 24,675	\$ 33,708

Inventory as at December 31, 2002 includes a write down of \$5.5 million on jewellery inventory.

5. Property, plant and equipment

(in thousands of dollars)

			2002	2001
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 3,226	\$ -	\$ 3,226	\$ 3,226
Land improvements	914	739	175	198
Buildings	75,350	23,542	51,808	52,630
Equipment	81,127	48,724	32,403	35,162
Hardware and software	12,269	7,910	4,359	3,848
	\$ 172,886	\$ 80,915	\$ 91,971	\$ 95,064

6. Loans

(in thousands of dollars)

	2002	2001
10-year loan due December 2007, bearing interest at 5.840% calculated semi-annually with the principal repayable in ten equal annual installments commencing December 1998	\$ 5,000	\$ 6,000
Amortizing bond with two year interest holiday maturing December 2009, semi-annual coupon at 7.753% starting June 2000 with principal repayable in ten equal installments commencing December 2000	21,700	24,800
Accrued interest on bond	2,440	2,970
	\$ 29,140	\$ 33,770
Less current portion of loans	5,782	6,023
	\$ 23,358	\$ 27,747

7. Income tax

(in thousands of dollars)

	2002	2001
Current tax expense (recovery)	\$ 280	\$ (1,430)
Future tax expense (recovery)	(2,432)	1,400
	\$ (2,152)	\$ (30)

Income tax expense differs from the amount that would be computed by applying the Federal statutory income tax rate of 36.12% (2001 - 38.12%) to loss before income tax. The reasons for the differences are as follows:

	2002	2001
Computed tax expense	\$ (2,731)	\$ (709)
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	225	86
Other net amounts	129	304
Large Corporation Tax	225	289
	\$ (2,152)	\$ (30)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at 2002 and 2001 are presented below:

	2002	2001
Future tax assets:		
Loss carry-forwards	\$ 3,150	\$ 339
Employee future benefits	1,960	1,960
	5,110	2,299
Future tax liability		
Capital assets	(5,203)	(4,801)
Net future tax liability	\$ (93)	\$ (2,502)

8. Employee future benefits

i) Pension benefits

The Public Service Superannuation Plan requires the Corporation to contribute at a rate of 2.14 times the employees' contribution (2001 - 2.14:1). The Corporation's contribution to the plan during the year was \$3,890,000 (2001 - \$3,559,000).

ii) Other benefits

The Corporation provides severance benefits and workers' compensation benefits to its employees. These benefits are not pre-funded and thus have no assets, resulting in a plan deficit equal to the accrued benefit obligation. The accrued benefit obligation of these benefits,

Notes to consolidated financial statements

December 31, 2002

including the short-term portion, is \$6,102,000 at the end of the year (2001 – \$5,939,000) and are fully recorded in the books of account. The current year's expense for these benefits is \$780,000 (2001 – \$575,000) and total benefits paid amounted to \$618,000 (2001 – \$1,244,000). The actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations were based on a 6.5% liability discount rate (2001 – 6.5%) and rates of compensation increase of 4% to 4.5% (2001 – 2% to 4.5%) which reflect current economic indicators, merit and promotional increases.

9. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada owned entities. The Corporation enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. Transactions with the Department of Finance related to the production and delivery of Canadian circulation coins are generally carried out on a cost plus basis.

10. Derivative financial instruments

The Corporation uses financial instruments such as forward contracts and options to reduce the risk of loss due to adverse movements in foreign exchange and precious metal prices. There were no foreign exchange forward contracts outstanding at the end of the year (2001 – US\$10.6 million). Precious metal forward contracts worth US\$2.3 million were outstanding at the end of the year (2001 – nil). In accordance with the Corporation's investment policy, all investments and other financial instruments are rated AA or better by Moody's or Standard and Poors. The carrying amounts of each investment approximates their fair value due to the short-term nature of their maturity.

11. Commitments

In order to facilitate the production of precious metal coins and manage the risks associated with changes in metal prices, the Mint leases, on an ongoing basis, precious metals and pays lease charges based on market value. The metal under these contractual arrangements is not reflected in the Mint's statements. As at December 31, 2002, 113,119 ounces of gold, 898,787 ounces of silver and 2,564 ounces of platinum were leased under these contracts (2001 – 113,067 ounces of gold, 1,450,878 ounces of silver and 1,184 ounces of platinum).

12. Comparative figures

Some of the prior years' comparative figures have been reclassified to conform to the current year's presentation.

Standards Council of Canada

Financial data is excluded for Standards Council of Canada since its 2002-03 Annual Report had not been tabled in Parliament by October 10th, 2003.



**Telefilm
Canada**



Management Report

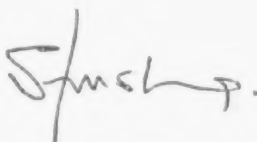
The financial statements of Telefilm Canada are the responsibility of management and have been approved by the Board of Directors of the Corporation. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, include estimates based on the experience and judgment of management. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent with the financial statements.

Management maintains books of account, financial and management control, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed

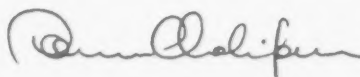
to provide reasonable assurance that transactions are in accordance with the *Financial Administration Act* and its regulations, the *Telefilm Canada Act*, and the by-laws and policies of the Corporation.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting as stated above. The Board exercises its responsibilities through the Audit and Finance Committee, which consists of directors who are not officers of the Corporation. The Committee reviews the quarterly financial statements, as well as the annual financial statements and related reports; the Committee meets with the external auditors annually and may make recommendations to the Board of Directors with respect to these and/or related matters.

The external auditor, the Auditor General of Canada, conducts an independent examination of the financial statements, and reports to the Corporation and to the Minister of Canadian Heritage.



Richard Stursberg
Executive Director



Danny Chalifour
Director – Finance and Administration

Montréal, Canada
June 6, 2003



Auditor's Report

To the Minister of Canadian Heritage

I have audited the balance sheet of Telefilm Canada (formerly known as the Canadian Film Development Corporation) as at March 31, 2003, and the statements of operations and equity of Canada and cash flow for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Telefilm Canada Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Telefilm Canada Act* and the by-laws of the Corporation.



Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 6, 2003

Balance Sheet

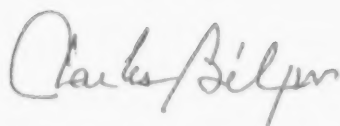
As at March 31

Assets

	2001 in thousands of dollars	2002 in thousands of dollars
Current assets		
Receivable from Canada	8,854	—
Contributions receivable from the Department of Canadian Heritage	15,381	37,183
Contributions receivable from the Canadian Television Fund — License Fee Program (note 2)	26,761	8,448
Loans (note 2)	1,310	2,007
Accounts receivable	8,450	8,274
Prepaid expenses	348	963
	<u>61,104</u>	<u>56,875</u>
Accounts receivable	306	409
Loans (note 2)	13	245
Investments	109	109
Capital assets (note 4)	6,714	5,664
	<u>68,246</u>	<u>63,302</u>

See accompanying notes to financial statements.

Approved by the Board:



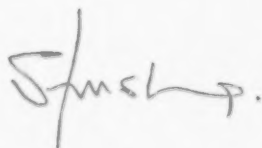
Charles Bélanger
Chairman

Liabilities and Equity of Canada

	2003 in thousands of dollars	2002 in thousands of dollars
Current liabilities		
Payable to Canada	-	10,183
Accounts payable and accrued liabilities	6,388	6,762
	6,388	16,945
Long-term liabilities		
Provision for employees' future benefits	585	601
Deferred lease inducements	1,292	1,231
Deferred capital funding (note 1)	6,714	5,664
	8,591	7,496
Equity of Canada	53,267	38,861
Commitments (note 2)		
Contingencies (note 2)		
	68,246	63,302

See accompanying notes to financial statements.

Approved by Management:



Richard Stursberg
Executive Director

Statement of Operations and Equity of Canada

Year ended March 31

	Canadian Television Fund In thousands of dollars	Canada Feature Film Fund In thousands of dollars	Canada New Media Fund In thousands of dollars	Music Entrepreneur Program In thousands of dollars	Other Funds In thousands of dollars	2003 Total In thousands of dollars	2002 Total In thousands of dollars
Assistance expenses							
Production and development							
Production	106,767	53,297	4,420	-	364	164,848	135,404
Development	6,274	6,288	1,485	-	413	14,460	10,005
Corporate Development	-	-	-	4,355	-	4,355	-
Low budget independent feature film assistance	-	1,458	-	-	-	1,458	2,246
Screenwriting assistance	-	1,593	-	-	-	1,593	1,745
Official coproductions	-	714	-	-	833	1,547	1,429
	113,041	63,350	5,905	4,355	1,610	188,261	150,829
Distribution and marketing							
Distribution & marketing	-	10,073	1,717	-	221	12,011	12,896
Alternative distribution channels	1,165	676	-	-	-	1,841	411
	1,165	10,749	1,717	-	221	13,852	13,307
Versioning and subtitling	-	418	-	-	851	1,269	1,856
Complementary activities							
Grants to professional training schools	-	-	54	-	2,571	2,625	2,966
Grants to Canadian festivals	-	2,057	246	-	316	2,619	2,555
Industrial and professional development	-	-	-	-	987	987	1,114
Participation in foreign markets	-	205	256	-	1,019	1,480	1,098
Participation in foreign festivals	-	1,111	-	-	-	1,111	527
Advertising, promotion and publications	-	544	23	-	170	737	501
Other	-	432	268	-	114	814	612
	-	4,349	847	-	5,177	10,373	9,373
	114,206	78,866	8,469	4,355	7,859	213,755	175,365
Recoveries on investments	(11,459)	(8,588)	(808)	-	(2,240)	(23,095)	(19,636)
Net amount	102,747	70,278	7,661	4,355	5,619	190,660	155,729
Operating expenses (note 8)						22,317	20,381
Cost of operations for the year						212,977	176,110
Revenue							
Investments revenues						(422)	(70)
Interest and management fees						(487)	(285)
Contributions from Canadian Television Fund							
- License Fee Program (note 3)						(26,761)	(8,448)
						(27,670)	(8,803)
Net cost of operations for the year before government assistance						185,307	167,307
Government assistance							
Parliamentary appropriation for operations						134,953	103,598
Contribution from the Department of Canadian Heritage (note 4)						63,262	64,975
Amortization of deferred capital funding (note 5)						1,498	929
						199,713	169,502
Net profit from operations						14,406	2,195
Equity of Canada at the beginning						38,861	36,666
Equity of Canada at the end						53,267	38,861

See accompanying notes to financial statements.

Cash Flow Statement

Year ended March 31

	2003 In thousands of dollars	2002 In thousands of dollars
Operating activities		
Net profit from operations	14,406	2,195
Adjustments for:		
Decrease in long-term accounts receivable	103	1,640
Decrease in the allowance for loan impairment	(162)	(684)
Conversion of loans not previously provisionned	168	855
Write-off of loans not previously provisionned	110	82
Amortization of capital assets	1,359	870
Loss on disposal and write-offs of capital assets	134	46
Increase (decrease) in the provision for employees' future benefits	(16)	83
Increase in deferred lease inducements	61	162
Amortization of deferred capital funding	(1,498)	(929)
Decrease of obligation under operating lease	-	(498)
	14,665	3,822
Variations in non-working capital cash items:		
Decrease (increase) in contributions receivable from the Department of Canadian Heritage	21,802	(32,693)
Increase in contributions receivable from the Canadian Television Fund – License Fee Program	(18,313)	(5,598)
Decrease (increase) in accounts receivable	(176)	1,806
Decrease (increase) in prepaid expenses	615	(97)
Decrease in accounts payable and accrued liabilities	(374)	(15,902)
	18,219	(48,662)
Financing activities		
Parliamentary appropriation for capital funding	2,548	2,271
Investing activities		
Loans	(118)	(281)
Repayments of loans	931	1,439
Acquisition of capital assets	(2,548)	(2,271)
Proceeds from disposal of capital assets	5	13
	(1,730)	(1,100)
Increase (decrease) in liquidity	19,037	(47,491)
Receivable from (payable to) Canada at the beginning	(10,183)	37,308
Receivable from (payable to) Canada at the end	8,854	(10,183)

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended March 31, 2003

1. Authority and activities

The Corporation was established in 1967 by the *Telefilm Canada Act* (previously, *Canadian Film Development Corporation Act*) with the objective of fostering and promoting the development of a feature film industry in Canada. The Corporation has since been charged with the administration of the Canadian Broadcast Program Development Fund (Television Fund) established in 1983 within the framework of the Broadcasting Strategy for Canada as well as with the management of various new programs established under the National Film and Video Policy of May 1984 and the Canadian Feature Film policy of October 2000. The Act was amended in June 1994 to grant the Corporation the authority to guarantee loans.

In September 1996, the Minister of Canadian Heritage created the Canadian Television Fund (CTF). Created to foster a partnership between the government and the industry, this new fund brings together the Corporation's television fund and the cable distributors production fund. Two financial assistance programs constitute the CTF: the Equity Investment Program and the License Fee Program. The Corporation was given responsibility for the management of the Equity Investment Program.

The Corporation was given responsibility for the administration of the funding program in support of pre-professional development in 1997, the management of the Canada New Media Fund in 1998 and the Music Entrepreneur Program in 2002.

The Corporation is a Crown corporation subject *inter alia* to the provisions of Part VIII of the *Financial Administration Act* as it read before its repeal in 1984 and as if it continued to be named in Schedule C of the Act.

2. Significant accounting policies

a) Financing sources of the Corporation

The Corporation obtains its funds mainly from the Government of Canada by means of the parliamentary appropriation and the contributions from the Department of Canadian Heritage. The portion of the parliamentary appropriation used to finance the acquisition of depreciable capital assets is recorded as deferred capital funding on the balance sheet and amortized on the same basis as the related capital assets. The other portion of the parliamentary appropriation and the contributions from the Department of Canadian Heritage are recorded on the Statement of Operations and Equity of Canada up to allowable incurred expenditures.

b) Amount receivable from Canada or payable to Canada

The financial operations of the Corporation are processed through the Consolidated Revenue Fund of Canada, thus the absence of bank accounts. For the purposes of the financial statements, the result of financial operations appears on the balance sheet as an amount receivable from Canada or payable to Canada.

c) Investments and allowance for losses

Investments include all forms of assistance granted for feature films, Canadian programming, new media and music, excluding loans. Investments are accounted for as follows:

- Investments granted in return for a share in operating revenues and accompanied by pre-established obligations to reimburse on a term generally not exceeding three years are shown on the balance sheet at their face value, less an allowance for losses. The allowance for losses is determined by examining each investment and is charged to operations as assistance expenses.
- Investments granted in return for a share in operating revenues, other than those accompanied by pre-established obligations to reimburse, as well as non-recoverable investments are charged to operations as assistance expenses. These expenses are charged to operations in the year in which the funds are paid or have become payable.
- Recoveries on investments, other than those recognized on the balance sheet, are credited to operations as a reduction of assistance expenses in the year in which the funds are received or have become receivable. Any proceeds in excess of the related investment are recorded as Investment revenues.

d) **Loans and allowance for losses**

The Corporation grants loans for the financing of Canadian programming, feature films and new media. Loans are shown on the balance sheet at the principal amount increased by accrued interest receivable, net of an allowance for impairment. The allowance for losses is charged to operations as assistance expenses.

A loan is considered impaired as a result of deterioration in credit quality to the extent that the Corporation no longer has reasonable assurance that the full amount of principal and interest will be collected in accordance with the terms of the loan agreement.

The allowance for credit losses includes specific and general allowances.

Specific allowances are established for each impaired loan. The evaluation is based on the receivables taken as security and the borrower's financial situation. The carrying amount of an impaired loan is reduced to its estimated realizable value by discounting the expected future cash flows at the effective interest rate inherent in the loan.

The general allowance represents the best estimate of probable impairment attributable to the deterioration of credit quality in the remaining portfolio for which specific allowances cannot yet be determined. The amount is estimated on previous losses and management's assessment of trends in the credit quality of the loan portfolio.

e) **Interest revenue**

Interest on loans is recorded as income on an accrual basis except for loans that are considered impaired. When a loan becomes impaired, recognition of interest in accordance with the terms of the original loan agreement ceases.

Other interest revenue is recognized on an accrual basis and represents the amounts charged on all amounts, other than loans, due to the Corporation, less an allowance for losses. This allowance for losses is determined by examining each amount.

f) **Capital assets**

Capital assets are recorded at cost. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Computer installations	Diminishing balance	20%
Software	Straight-line	5 years
Furniture and equipment	Diminishing balance	20%
Leasehold improvements	Straight-line	Terms of the leases

g) **Employee future benefits**

Pension benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contribution to the plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions, and may change from time to time depending on the experience of the Plan. These contributions represents the total pension obligations of the Corporation and are charged to operations on a current basis. The Corporation is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Non-pension benefits

The Corporation is required to recognize certain non-pension post-employment benefits over the periods which employees render services to the Corporation. Employees are entitled to specified benefits on termination as provided for under conditions of employment, through a severance benefit plan. The Corporation recognizes the cost of future severance benefits over the periods in which the employees render services to the entity and the liability for these benefits is recorded in the accounts as the benefits accrue to employees.

h) **Measurement uncertainty**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The allowance for losses on impaired loans and bad debts, employee future benefits and contingencies are the most significant items where estimates are used. Actual results could differ from those estimates.

3. Loans and allowance for losses

Loans with a carrying value of \$1,456,221 (\$2,711,806 in 2002) granted for production and marketing projects in the Multimedia Fund are interest-free loans. Generally these loans are repayable in twelve consecutive equal monthly instalments beginning twelve to twenty-four months after the agreed completion date of the project. For other loans, interest charged does not exceed the prime rate plus 2 percent. The loans have a term generally not exceeding three years.

As at March 31, the loans are detailed as follows:

	Amount	Allowance for losses	2003 Net amount	2002 Net amount
	In thousands of dollars	In thousands of dollars	In thousands of dollars	In thousands of dollars
Loans	1,323	—	1,323	2,252
Impaired loans	1,057	1,057	—	—
	2,380	1,057	1,323	2,252
Less current portion	2,354	1,044	1,310	2,007
Long-term portion	26	13	13	245

The allowance for losses is detailed as follows:

	2003 In thousands of dollars	2002 In thousands of dollars
Balance at beginning	2,149	8,695
Conversion of loans	(559)	(4,547)
Write-offs	(371)	(1,315)
Recoveries	—	(285)
Allowance	(162)	(399)
Balance at end	1,057	2,149

4. Capital assets

	Cost	Accumulated Amortization	2003 Net value	2002 Net value
	In thousands of dollars	In thousands of dollars	In thousands of dollars	In thousands of dollars
Leasehold improvements	2,389	839	1,550	804
Software	6,605	1,699	4,906	4,435
Computer installations	395	254	141	314
Furniture and equipment	1,130	1,013	117	111
	10,519	3,805	6,714	5,664

5. Deferred capital funding

The amount presented on the balance sheet is as follows:

	2003 In thousands of dollars	2002 In thousands of dollars
Balance at beginning	5,664	4,322
Parliamentary appropriation for capital funding	2,548	2,271
Amortization of deferred capital funding	(1,498)	(929)
Balance at end	6,714	5,664

6. Contributions from the Department of Canadian Heritage

The contributions from the Department of Canadian Heritage are as follows:

	2003 In thousands of dollars	2002 In thousands of dollars
Canadian Television Fund – Equity Investment Program	47,275	56,175
Canada New Media Fund	7,452	6,000
Music Entrepreneur Program	5,740	—
Pre Professional Development	2,795	2,800
	63,262	64,975

7. Contributions from Canadian Television Fund - License Fee Program

In the course of the fiscal year, the Canadian Television Fund - License Fee Program transferred \$26,761,000 (\$8,448,000 in 2002) to the Corporation for the financing of Canadian television programming.

8. Operating expenses

	2003 In thousands of dollars	2002 In thousands of dollars
Salaries and employees benefits	12,458	11,287
Professional services	2,638	3,031
Office expenses	2,059	1,860
Rent, taxes, heating and electricity	1,527	1,378
Travel	1,108	1,189
Amortization	1,359	870
Advertising and publications	422	283
Telecommunications	306	273
Relocation	238	69
Loss on disposal and write-offs of capital assets	134	46
Hospitality	68	95
Total	22,317	20,381

9. Employee future benefits**Pension benefit**

During the year the Public Service Superannuation Plan (PSSA) required the Corporation to contribute to the PSSA. Contributions during the year were as follows:

	2003 In thousands of dollars	2002 In thousands of dollars
Corporation	1,324	1,025
Employees	493	420

Non-pension benefits

These benefit plans are not pre-funded and thus have no assets. The accrued benefit liability recognized in the balance sheet at March 31, 2003 respecting these benefit plans is \$684,716 (\$854,298 in 2002).

The net expense for the Corporation's non-pension benefit plans for the year ended March 31, 2003 is \$114,095 (\$400,358 in 2002).

10. Commitments**a) Projects**

As at March 31, 2003, the Corporation is committed contractually to advance funds as investments:

	Total In thousands of dollars
Canadian Television Fund - Equity Investment Program	29,623
Canada Feature Film Fund	20,418
Canada New Media Fund	3,695
Music Entrepreneur Program	108
Other funds	1,829
Total	55,673

In addition the Corporation has accepted to finance projects that may call for disbursements totalling \$12,029,534.

b) Leases

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The aggregate minimum annual rentals payable during subsequent years are as follows:

	Total in thousands of dollars
2004	1,694
2005	1,470
2006	1,330
2007	1,291
2008	1,290
2009 - 2015	7,692
Total	14,767

11. Related party transactions

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. The transactions are recorded at exchange value.

12. Contingencies

The Corporation guarantees the reimbursement of loans or debts incurred by third parties with financial institutions within the loan guarantee program. The total amount of the Corporation's guarantees cannot exceed, at any time, \$25,000,000. The interest rate cannot exceed the lending institutions' prime rate plus 2 percent, and eligible security must be obtained from the borrower. The guarantees as at March 31, 2003 totalled \$644,482 (\$765,975 in 2002). A provision for losses is recorded when management can estimate that a loss is likely to occur.

In the normal course of business, various claims and lawsuits have been brought against the Corporation. In the opinion of management, the losses, if any, which may result from the settlement of the matters are not likely to be material, and accordingly, no provision has been made in the accounts of the Corporation. In the event that such expenses were to occur, they would be charged to expense when determined.

13. Fair value of financial assets and liabilities

The carrying amounts reported for investments, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

The following table represents the carrying amounts and fair values of the Corporation's other financial instruments:

	2003		2002	
	Carrying amount in thousands of dollars	Fair value in thousands of dollars	Carrying amount in thousands of dollars	Fair value in thousands of dollars
Short-term loans	1,310	1,288	2,007	1,956
Long-term loans	13	12	245	229

The fair values of loans have been established by discounting the future contractual cash flows under current loan arrangements, at discount rates equal to the prevailing market rate of interest for financial instruments having substantially the same terms and characteristics.

14. Comparatives figures

Some of the 2002 comparative figures have been reclassified to conform with the presentation adopted for 2003.

**VIA Rail
Canada
Inc.**

MANAGEMENT'S RESPONSIBILITY STATEMENTS

(Year ended December 31, 2002)

Management of the Corporation is responsible for the preparation and integrity of the financial statements contained in the Annual Report. These statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include certain amounts that are based on management's best estimates and judgement. Financial information contained throughout the Annual Report is consistent with that in the financial statements. Management considers that the statements present fairly the financial position of the Corporation, the results of its operations and its cash flows.

To fulfill its responsibility, the Corporation maintains systems of internal controls, policies and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems are subject to periodic reviews by Samson Bélair/Deloitte & Touche, general partnership, as internal auditors. The external auditors, the Auditor General of Canada and Ernst & Young LLP, have audited the Corporation's financial statements for the year ended December 31, 2002, and their report indicates the scope of their audit and their opinion on the financial statements.

The Audit and Finance Committee of the Board of Directors, consisting primarily of independent Directors, meets periodically with the internal and external auditors and with management, to review the scope of their audits and to assess reports on audit work performed. The financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit and Finance Committee.

Marc LeFrançois
President and Chief Executive Officer

J. R. Paquette
Chief Financial Officer

Montreal, Canada
February 5, 2003

AUDITORS' REPORT

TO THE MINISTER OF TRANSPORT

We have audited the balance sheet of VIA Rail Canada Inc. as at December 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act* and regulations and the by-laws of the Corporation.

Ernst & Young LLP
Chartered Accountants

Sheila Fraser, FCA
Auditor General of Canada

Montreal, Canada
February 5, 2003

FINANCIAL STATEMENTS

(As at December 31)

BALANCE SHEET

(in thousands)	NOTES	2002	2001
CURRENT ASSETS			
Cash and cash equivalents		\$ 5,403	\$ 11,518
Accounts receivable, trade		8,702	8,208
Accounts receivable, other		2,609	14,973
Receivable from the Government of Canada		21,990	9,397
Materials		14,617	15,950
		53,321	60,046
LONG-TERM ASSETS			
Capital assets	4	627,070	577,886
Asset renewal fund	5	93,888	89,498
Accrued benefit asset	6	111,621	86,225
Other		6,284	4,067
		838,863	757,676
		\$ 892,184	\$ 817,722
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 94,722	\$ 103,139
Deferred revenues		7,115	7,123
		101,837	110,262
LONG-TERM LIABILITIES			
Accrued benefit liability	6	16,392	15,858
Future income taxes	7	21,224	11,737
Other		4,213	4,652
		41,829	32,247
DEFERRED CAPITAL FUNDING	8	644,755	586,953
SHAREHOLDER'S EQUITY			
Share capital	9	9,300	9,300
Contributed surplus		4,963	4,963
Retained earnings		89,500	73,997
		103,763	88,260
		\$ 892,184	\$ 817,722

See accompanying notes to financial statements

On behalf of the Board,

Marlene McGraw, CA
Director and Chairman of
the Audit and Finance Committee

Jean Pelletier
Director and Chairman
of the Board

FINANCIAL STATEMENTS

(As at December 31)

BALANCE SHEET

(in thousands)	NOTES	2002	2001
CURRENT ASSETS			
Cash and cash equivalents		\$ 5,403	\$ 11,518
Accounts receivable, trade		8,702	8,208
Accounts receivable, other		2,609	14,973
Receivable from the Government of Canada		21,990	9,397
Materials		14,617	15,950
		<u>53,321</u>	<u>60,046</u>
LONG-TERM ASSETS			
Capital assets	4	627,070	577,886
Asset renewal fund	5	93,888	89,498
Accrued benefit asset	6	111,621	86,225
Other		6,284	4,067
		<u>838,863</u>	<u>757,676</u>
		\$ 892,184	\$ 817,722
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 94,722	\$ 103,139
Deferred revenues		7,115	7,123
		<u>101,837</u>	<u>110,262</u>
LONG-TERM LIABILITIES			
Accrued benefit liability	6	16,392	15,858
Future income taxes	7	21,224	11,737
Other		4,213	4,652
		<u>41,829</u>	<u>32,247</u>
DEFERRED CAPITAL FUNDING	8	<u>644,755</u>	<u>586,953</u>
SHAREHOLDER'S EQUITY			
Share capital	9	9,300	9,300
Contributed surplus		4,963	4,963
Retained earnings		89,500	73,997
		<u>103,763</u>	<u>88,260</u>
		\$ 892,184	\$ 817,722

See accompanying notes to financial statements

On behalf of the Board,

Marlene McGraw, CA
Director and Chairman of
the Audit and Finance Committee

Jean Pelletier
Director and Chairman
of the Board

FINANCIAL STATEMENTS

(Year ended December 31)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

(in thousands)	NOTES	2002	2001
REVENUES			
Passenger		\$ 253,929	\$ 234,939
Other		16,860	18,889
		270,789	253,828
EXPENSES			
Compensation and benefits		193,447	182,207
Train operations and fuel		94,075	92,199
Stations and property		28,499	28,292
Maintenance material		25,834	28,191
Marketing and sales		27,015	25,670
On-train product costs		17,248	15,760
Operating taxes		11,757	11,964
Employee future benefits	6	(22,746)	(62,127)
Amortization and losses on write-down and disposal of capital assets		47,007	47,147
Other		21,412	27,765
		443,548	397,068
Operating loss before funding from the Government of Canada and income taxes		172,759	143,240
Operating funding from the Government of Canada		153,682	163,293
Amortization of deferred capital funding		45,575	46,980
Results of operations before income taxes		26,498	67,033
Income tax expense	7	10,995	13,012
Net results from operations for the year		15,503	54,021
Retained earnings, beginning of year		73,997	19,976
Retained earnings, end of year		\$ 89,500	\$ 73,997

See accompanying notes to financial statements

FINANCIAL STATEMENTS

(Year ended December 31)

STATEMENT OF CASH FLOWS

(in thousands)

	2002	2001
OPERATING ACTIVITIES		
Net results from operations for the year	\$ 15,503	\$ 54,021
Non-cash items relating to operations:		
Amortization of capital assets	46,923	46,507
Losses on write-down and disposal of capital assets	432	984
Amortization of investment tax credits	(348)	(344)
Amortization of deferred capital funding	(45,575)	(46,980)
Future income taxes	9,487	11,737
Write-down of the investments in the asset renewal fund	5,740	—
Change in non-cash working capital	2,398	8,149
Change in other long-term assets	(2,217)	(4,067)
Change in accrued benefit asset	(25,396)	(65,508)
Change in accrued benefit liability	534	(696)
Change in other long-term liabilities	(91)	(91)
	7,390	3,712
FINANCING ACTIVITIES		
Capital funding from the Government of Canada	103,377	151,742
Change in capital funding receivable from the Government of Canada	(10,213)	(5,713)
	93,164	146,029
INVESTING ACTIVITIES		
Acquisition of investments in the asset renewal fund	(15,894)	(18,967)
Proceeds from sale and maturity of investments in the asset renewal fund	5,764	6,833
Acquisition of capital assets	(98,377)	(146,742)
Proceeds from disposal of capital assets	1,838	2,212
	(106,669)	(156,664)
CASH AND CASH EQUIVALENTS		
Decrease during the year	(6,115)	(6,923)
Balance, beginning of year	11,518	18,441
Balance, end of year	\$ 5,403	\$ 11,518
REPRESENTED BY:		
Cash and outstanding cheques	469	(1,793)
Term deposits, 2.76%, maturing in January 2003 (2001: 2.23%)	4,934	13,311
	\$ 5,403	\$ 11,518

See accompanying notes to financial statements

FINANCIAL STATEMENTS

(Year ended December 31)

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(in thousands)

	NOTES	2002	2001
REVENUES			
Passenger		\$ 253,929	\$ 234,939
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FINANCIAL STATEMENTS

(Year ended December 31)

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	\$ 5,403	\$ 11,518

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NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

1. AUTHORITY AND OBJECTIVES

VIA Rail Canada Inc. is a Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. It was incorporated in 1977, under the *Canada Business Corporations Act*. The Corporation's vision is to be the Canadian leader in service excellence in passenger transportation with a mission to work together to consistently deliver safe, efficient and environmentally-responsible services for travellers in Canada. The Corporation uses the roadway infrastructure of other railway companies and relies on them to control train operations.

The Corporation is not an agent of Her Majesty and is subject to income taxes.

2. ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Corporation are summarized as follows:

A) FUNDING FROM THE GOVERNMENT OF CANADA

Operating funding, which pertains to services, activities and other undertakings of the Corporation for the management and operation of railway passenger services in Canada, is recorded as a reduction of the operating loss. The amounts are determined on the basis of operating costs less commercial revenues excluding employee future benefits and non-cash transactions relating to capital assets and future income taxes, and are based on the operating budget approved by the Government of Canada for each year.

Funding for depreciable capital assets is recorded as deferred capital funding on the Balance Sheet and is amortized on the same basis and over the same periods as the related capital assets. Upon disposition of the funded depreciable capital assets, the Corporation recognizes into income all remaining deferred capital funding related to these capital assets. Funding for non-depreciable capital assets is recorded as contributed surplus.

B) CASH EQUIVALENTS

Cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

C) REVENUE RECOGNITION

Revenues earned from passenger transportation are recorded as services are rendered. Amounts received for train travel not yet rendered are included in current liabilities as deferred revenues.

D) FOREIGN CURRENCY TRANSLATION

Accounts in foreign currencies are translated using the temporal method. Under this method, monetary Balance Sheet items are translated at the exchange rates in effect at year-end. Gains and losses resulting from the changes in exchange rate are reflected in the statement of operations and retained earnings.

Non-monetary Balance Sheet items as well as foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions.

E) MATERIALS

Materials, which are valued at the lower of weighted average cost and replacement cost, consist primarily of items used for the maintenance of rolling stock. An allowance for obsolescence is provided for materials.

F) CAPITAL ASSETS

Capital assets acquired from Canadian National Railway and Canadian Pacific Limited at the start of operations in 1978 were recorded at the net transfer values while subsequent acquisitions, including those acquired under capital leases, are recorded at cost.

The costs of refurbishing and rebuilding rolling stock and costs associated with other capital asset upgrading are capitalized if they are incurred to improve the service value or extend the useful lives of the capital assets concerned; otherwise, such costs are expensed as incurred.

Retired assets are written down to their net realizable value.

Amortization of capital assets is calculated on a straight-line basis at rates sufficient to amortize the cost of capital assets, less their residual value, over their estimated useful lives, as follows:

Rolling stock	12 to 29 years
Maintenance buildings	25 years
Stations and Facilities	20 years
Infrastructure improvements	5 to 40 years
Leasehold improvements	5 to 20 years
Machinery and Equipment	4 to 15 years
Information systems	3 to 7 years
Other assets	3 to 10 years

No amortization is provided for projects in progress and retired assets.

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

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Other assets	3 to 10 years

No amortization is provided for projects in progress and retired assets.

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

2. ACCOUNTING POLICIES (CONT'D)

g) INCOME TAXES

The Corporation follows the liability method of accounting for income taxes.

Under this method, the change in the net future income tax asset or liability is included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to reverse.

h) INVESTMENT TAX CREDITS

Investment tax credits are amortized over the estimated useful lives of the related capital assets. The amortization of deferred investment tax credits is recorded as a reduction of the amortization of capital assets. These credits are included in other long-term liabilities.

i) EMPLOYEE FUTURE BENEFITS

The Corporation accrues obligations under its employee future benefit plans and has adopted the following policies:

The cost of pension and other employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

Amortization of past service costs and transition assets and liabilities is calculated on a straight-line basis over the expected average remaining service lives of the active employee groups.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The excess of the accumulated net actuarial gain or loss over 10% of the greater of the accumulated benefit obligation and the fair value of plan assets is amortized over the average remaining service lives of active employees which is, in most cases, estimated to be 12 years.

j) VIA Préférence PROGRAM

The incremental costs of providing travel awards under the Corporation's *VIA Préférence* frequent traveller reward program are accrued as the entitlements to such awards are earned and are included in accounts payable and accrued liabilities.

k) FINANCIAL INSTRUMENTS

The estimated fair value of the recognized financial instruments, except for the asset renewal fund and temporary investments, approximates their carrying value due to their current nature.

Temporary investments are carried at the lower of cost and market, determined on an aggregate basis.

Investments in the asset renewal fund are carried at cost. The carrying value of each of these investments is assessed periodically to determine if there has been an other than temporary decline in value. A charge to income is recorded during the period in which such a decline in value is determined.

Derivative financial instruments are utilized by the Corporation in the management of its exposure to changes in fuel prices. The Corporation does not enter into derivative financial instruments for trading or speculative purposes.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives, comprised of fuel swap agreements, to forecasted diesel fuel purchases.

Fuel swap agreements require periodic cash settlement of an amount calculated by applying a rate or price to a notional amount. Gains and losses on fuel swaps used to hedge anticipated diesel purchases are recognized as an adjustment of fuel expense when the fuel purchases are recorded.

l) MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

3. RECONCILIATION OF NET RESULTS FROM OPERATIONS TO GOVERNMENT FUNDING BASIS

The Corporation receives its funding from the Government of Canada based primarily on cash flow requirements. Items recognized in the Statement of operations and retained earnings in one year may be funded by the Government of Canada in different years. Accordingly, the Corporation has different net results of operations for the year on a government funding basis than on a Canadian generally accepted accounting principles basis. These differences are outlined below:

(in millions of dollars)	2002	2001
Net results of operations for the year	15.5	54.0
Items not requiring (not providing) operating funds:		
Amortization and losses on write-down and disposal of capital assets excluding amortization of investment tax credits	47.4	47.5
Amortization of deferred capital funding	(45.6)	(47.0)
Employee future benefits	(22.7)	(62.1)
Previous years' lease expenses funded in the current year	(0.3)	(0.3)
Future income taxes	9.4	11.7
Adjustment for accrued compensation	0.4	0.7
Payment of prior years' reorganization charges	(3.8)	(4.3)
Operating funding surplus for the year	0.3	0.2

4. CAPITAL ASSETS

(in millions of dollars)	2002			2001		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	5.0	—	5.0	5.0	—	5.0
Rolling stock	614.3	313.1	301.2	574.3	293.6	280.7
Maintenance buildings	161.6	100.8	60.8	160.7	94.9	65.8
Stations and Facilities	43.2	20.0	23.2	34.7	17.8	16.9
Infrastructure improvements	126.5	39.6	86.9	100.1	36.7	63.4
Leasehold improvements	105.2	72.1	33.1	91.1	67.6	23.5
Machinery and Equipment	31.1	25.3	5.8	29.6	24.1	5.5
Information systems	68.6	64.7	3.9	66.2	61.2	5.0
Other assets	19.7	18.9	0.8	18.9	18.7	0.2
	1,175.2	654.5	520.7	1,080.6	614.6	466.0
Projects in progress			86.8			91.6
Retired assets (at net realizable value)			19.6			20.3
			627.1			577.9

Projects in progress as at December 31, 2002, primarily consist of rolling stock for \$71.3 million (2001: \$58.9 million) and improvements to infrastructure and stations for \$11.2 million (2001: \$29.5 million).

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

5. ASSET RENEWAL FUND

The Corporation has been authorized by the Treasury Board of the Government of Canada to segregate proceeds from the sale or lease of surplus assets as well as up to \$5 million of annual funding approved but not expended during the fiscal year to 2006, in a manner which ensures that these funds are retained for future capital projects.

The asset renewal fund includes the following investment instruments:

(in millions of dollars)

	2002		2001	
	Cost	Market Value	Cost	Market Value
Government of Canada bonds	19.6	23.3	18.4	20.2
Other Canadian bonds and debentures	15.4	16.6	13.1	13.1
Pooled equity unit trust	51.0	45.9	49.5	45.6
Cash and short-term investments	7.9	7.9	8.5	9.8
	93.9	93.7	89.5	88.7

Treasury Board has approved an amount of \$39.5 million (2001: \$39.5 million) to fund prior years' operating deficits and certain capital assets while the balance of the asset renewal fund of \$54.4 million (2001: \$50.0 million) represents the funds that are retained for future investments in capital assets.

The Corporation has written down the asset renewal fund by \$5.7 million, which represents an other than temporary decline in value of the original cost of the instruments as compared with their market value as at December 31, 2002.

The weighted average effective rate of return on bonds and debentures as well as short-term investments for 2002 was 5.61% (2001: 5.82%) and the weighted average term to maturity for 2002 was 11 years (2001: 12 years).

The fair value of bonds, pooled equity unit trust and short-term investments is equivalent to the market value based on the current bid price at the Balance Sheet date.

The Corporation is subject to credit risk from its holdings of the asset renewal fund. The Corporation minimizes its credit risks by adhering to the *Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations* and the Corporate Investment Policy and by investing in high quality financial instruments.

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

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The fair value of bonds, pooled equity unit trust and short-term investments is equivalent to the market value based on the current bid price at the Balance Sheet date.

The Corporation is subject to credit risk from its holdings of the asset renewal fund. The Corporation minimizes its credit risks by adhering to the *Minister of Finance of Canada Financial Risk Management Guidelines for Crown Corporations* and the Corporate Investment Policy and by investing in high quality financial instruments.

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

6. EMPLOYEE FUTURE BENEFITS

The Corporation provides defined benefit pension plans, post retirement and post-employment benefits to all its permanent employees.

Included in other benefit plans are expenses incurred by the Corporation relating to workers' compensation, post-retirement and post-employment benefits, and network restructuring charges.

The latest actuarial valuations of the pension plans were carried out as at December 31, 2001, by external actuaries who are members of the Canadian Institute of Actuaries.

Based on these actuarial valuations and projections to December 31, 2002, the summary of the principal valuation results, in aggregate, is as follows:

A) CHANGE IN BENEFIT OBLIGATION:

(in millions of dollars)

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Accrued benefit obligation at beginning of year	1,094.5	1,000.5	27.4	24.6
Impact of plan amendments	—	5.3	—	0.6
Current service cost	13.2	9.2	3.7	3.5
Employee contributions	9.1	8.1	—	—
Interest cost	74.7	69.0	1.9	1.9
Benefits paid	(71.2)	(65.3)	(4.9)	(4.8)
Actuarial (gain) loss	71.7	67.7	(0.2)	1.6
Accrued benefit obligation at end of year	1,192.0	1,094.5	27.9	27.4

B) CHANGE IN PLAN ASSETS:

(in millions of dollars)

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Market value of plan assets at beginning of year	1,309.7	1,428.1	—	—
Actual return on plan assets	(31.1)	(61.2)	—	—
Employer contributions	1.3	—	4.9	4.8
Employee contributions	9.1	8.1	—	—
Benefits paid	(71.2)	(65.3)	(4.9)	(4.8)
Market value of plan assets at end of year	1,217.8	1,309.7	—	—

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

6. EMPLOYEE FUTURE BENEFITS (CONT'D)

c) FUNDED STATUS:

(in millions of dollars)

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Funded status - plan surplus (deficit)	25.8	215.2	(27.9)	(27.4)
Unamortized net actuarial loss	429.3	246.5	0.8	1.1
Unamortized past service costs	4.4	4.9	0.5	0.6
Unamortized transitional obligation (asset)	(347.9)	(380.4)	14.2	16.7
Network restructuring accrual	—	—	(4.0)	(6.8)
Accrued benefit asset (liability) at end of year	111.6	86.2	(16.4)	(15.8)

The accrued benefit obligations of \$966.1 million exceeded the fair value of the plan assets of \$943.3 million by an amount of \$22.8 million as at December 31, 2002, in one of the Corporations defined benefit plans.

d) NET PENSION EXPENSE (INCOME):

(in millions of dollars)

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Current service cost	13.2	9.2	3.8	3.5
Interest cost	74.7	69.0	1.9	1.9
Expected return on plan assets	(95.6)	(111.6)	—	—
Amortization of transitional obligation (asset)	(32.5)	(32.5)	2.5	2.5
Amortization of past service costs	0.4	0.4	—	—
Amortization of net actuarial loss	15.7	—	0.1	—
Benefits paid and expensed by the employer	(1.3)	—	(4.9)	(4.8)
Adjustment of the network restructuring accrual	—	—	(0.7)	0.3
Net pension expense (income)	(25.4)	(65.5)	2.7	3.4

The reduction in the pension income is influenced by the weak performance of the equity markets and low interest rates.

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

6. EMPLOYEE FUTURE BENEFITS

The Corporation provides defined benefit pension plans, post retirement and post-employment benefits to all its permanent employees.

Included in other benefit plans are expenses incurred by the Corporation relating to workers' compensation, post-retirement and post-employment benefits, and network restructuring charges.

The latest actuarial valuations of the pension plans were carried out as at December 31, 2001, by external actuaries who are members of the Canadian Institute of Actuaries.

Based on these actuarial valuations and projections to December 31, 2002, the summary of the principal valuation results, in aggregate, is as follows:

A) CHANGE IN BENEFIT OBLIGATION:

(in millions of dollars)

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Accrued benefit obligation at beginning of year	1,094.5	1,000.5	27.4	24.6
Impact of plan amendments	—	5.3	—	0.6
Current service cost	13.2	9.2	3.7	3.5
Employee contributions	9.1	8.1	—	—
Interest cost	74.7	69.0	1.9	1.9
Benefits paid	(71.2)	(65.3)	(4.9)	(4.8)
Actuarial (gain) loss	71.7	67.7	(0.2)	1.6
Accrued benefit obligation at end of year	1,192.0	1,094.5	27.9	27.4

B) CHANGE IN PLAN ASSETS:

(in millions of dollars)

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Market value of plan assets at beginning of year	1,309.7	1,428.1	—	—
Actual return on plan assets	(31.1)	(61.2)	—	—
Employer contributions	1.3	—	4.9	4.8
Employee contributions	9.1	8.1	—	—
Benefits paid	(71.2)	(65.3)	(4.9)	(4.8)
Market value of plan assets at end of year	1,217.8	1,309.7	—	—

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

6. EMPLOYEE FUTURE BENEFITS (CONT'D)

c) FUNDED STATUS:

(in millions of dollars)

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Funded status – plan surplus (deficit)	25.8	215.2	(27.9)	(27.4)
Unamortized net actuarial loss	429.3	246.5	0.8	1.1
Unamortized past service costs	4.4	4.9	0.5	0.6
Unamortized transitional obligation (asset)	(347.9)	(380.4)	14.2	16.7
Network restructuring accrual	—	—	(4.0)	(6.8)
Accrued benefit asset (liability) at end of year	111.6	86.2	(16.4)	(15.8)

The accrued benefit obligations of \$966.1 million exceeded the fair value of the plan assets of \$943.3 million by an amount of \$22.8 million as at December 31, 2002, in one of the Corporations defined benefit plans.

d) NET PENSION EXPENSE (INCOME):

(in millions of dollars)

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Current service cost	13.2	9.2	3.8	3.5
Interest cost	74.7	69.0	1.9	1.9
Expected return on plan assets	(95.6)	(111.6)	—	—
Amortization of transitional obligation (asset)	(32.5)	(32.5)	2.5	2.5
Amortization of past service costs	0.4	0.4	—	—
Amortization of net actuarial loss	15.7	—	0.1	—
Benefits paid and expensed by the employer	(1.3)	—	(4.9)	(4.8)
Adjustment of the network restructuring accrual	—	—	(0.7)	0.3
Net pension expense (income)	(25.4)	(65.5)	2.7	3.4

The reduction in the pension income is influenced by the weak performance of the equity markets and low interest rates.

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

6. EMPLOYEE FUTURE BENEFITS (CONT'D)

E) WEIGHTED-AVERAGE ASSUMPTIONS:

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Discount rate	6.5%	6.5%	6.5%	6.5%
Expected long-term rate of return on plan assets	7.5%	8.0%	—	—
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

Health care benefits included in other benefit plans are measured using the Canadian Consumer Price Index (CPI) plus 7.0%. The rate was assumed to decrease gradually to CPI plus 1.0% over 7 years and remain at that level thereafter.

7. INCOME TAXES

The income tax expense is represented by the large corporation tax of \$1.6 million (2001: \$1.3 million) and the future income tax expense of \$9.4 million (2001: \$11.7 million).

The future income tax liabilities result from temporary differences relating to the accrued benefit asset less the tax benefits relating to losses carryforwards, contingencies, write-down of the investments in the asset renewal fund, the accrued benefit liability, other long-term liabilities and capital assets net of the valuation allowance.

8. DEFERRED CAPITAL FUNDING

(in millions of dollars)

	2002	2001
Balance, beginning of year	586.9	482.4
Government funding for depreciable capital assets	103.4	151.8
Government funding for land investment transferred to contributed surplus	—	(0.3)
Amortization of deferred capital funding	(45.6)	(47.0)
Balance, end of year	644.7	586.9

9. SHARE CAPITAL

The authorized share capital of the Corporation is comprised of an unlimited number of common shares with no par value. As at December 31, 2002 and 2001, 93,000 shares at \$100 per share are issued and fully paid.

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

10. COMMITMENTS

- a) The future minimum payments relating to operating leases mainly for real estate and computer equipment are as follows:

(in millions of dollars)

2003	8.7
2004	7.3
2005	7.3
2006	7.4
2007	7.6
Subsequent years proportionately to 2049	126.7
	<u>165.0</u>

- b) As at December 31, 2002, the Corporation has outstanding purchase commitments amounting to \$39.2 million consisting mainly of rolling stock.
- c) The Corporation has entered into train service agreements for the use of tracks and control of train operations expiring on December 31, 2008.
- d) The Corporation has issued letters of credit totalling approximately \$21.7 million (2001: \$20.4 million) to various provincial government workers' compensation boards as security for future payment streams.

11. FINANCIAL INSTRUMENTS

The Corporation has hedged 51.5% of the estimated 2003 fuel consumption, 51.3% of the estimated 2004 fuel consumption and 24.3% of the estimated 2005 fuel consumption. This represents 23.1 million U.S. gallons at an average price of \$0.66 U.S. per U.S. gallon. Unrealized gains from the Corporation's fuel hedging activities were \$1.2 million as at December 31, 2002 (2001: unrealized loss of \$1.9 million).

The Corporation is exposed to credit risk in the event of non-performance by the counterparty to its derivative financial instruments but does not expect such non-performance as the counterparty is of high credit quality.

12. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments and agencies. The Corporation enters into transactions with these entities in the normal course of business on trade terms applicable to all individuals and enterprises and these transactions are recorded at exchange value.

13. CONTINGENCIES

The Corporation is subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies are not expected to have a material adverse effect on the financial position of the Corporation.

14. RECLASSIFICATION

The comparative financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2002 financial statements.

NOTES TO FINANCIAL STATEMENTS

(As at December 31, 2002)

6. EMPLOYEE FUTURE BENEFITS (CONT'D)

e) WEIGHTED-AVERAGE ASSUMPTIONS:

	PENSION PLANS		OTHER BENEFIT PLANS	
	2002	2001	2002	2001
Discount rate	6.5%	6.5%	6.5%	6.5%
Expected long-term rate of return on plan assets	7.5%	8.0%	—	—
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%

Health care benefits included in other benefit plans are measured using the Canadian Consumer Price Index (CPI) plus 7.0%. The rate was assumed to decrease gradually to CPI plus 1.0% over 7 years and remain at that level thereafter.

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(in millions of dollars)

	2002	2001
Balance, beginning of year	586.9	482.4
Government funding for depreciable capital assets	103.4	151.8
Government funding for land investment transferred to contributed surplus	—	(0.3)
Amortization of deferred capital funding	(45.6)	(47.0)
Balance, end of year	644.7	586.9

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2007	7.6
Subsequent years proportionately to 2049	126.7
	165.0

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